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TRADE AND INTERNATIONAL ECONOMIC POLICY REFORM ACT OF 1987

(TITLE VI—AGRICULTURAL TRADE)

HEARING

BEFORE THE

COMMITTEE ON AGRICULTURE
HOUSE OF REPRESENTATIVES

ONE HUNDREDTH CONGRESS

FIRST SESSION

ON

H.R. 3, Title VI

MARCH 31, 1987

Serial No. 100-10

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TRADE AND INTERNATIONAL ECONOMIC POLICY REFORM ACT OF 1987

TUESDAY, MARCH 31, 1987

HOUSE OF REPRESENTATIVES,
COMMITTEE ON AGRICULTURE,
Washington, DC.

The committee met, pursuant to notice, at 11:15 a.m., in room 1300, Longworth House Office Building, Hon. E (Kika) de la Garza (chairman of the committee) presiding.

Present: Representatives Jones of Tennessee, Rose, English, Panetta, Glickman, Stenholm, Volkmer, Hatcher, Tallon, Staggers, Evans, Thomas, Olin, Penny, Stallings, Nagle, Jontz, Johnson, Harris, Campbell, Jeffords, Hopkins, Stangeland, Roberts, Emerson, Morrison, Gunderson, Smith, Combest, Schuette, Grandy, Herger, and Holloway.

Staff present: Phillip L. Fraas, counsel; William E. O'Conner, Jr., assistant minority staff director; John E. Hogan, minority counsel; Glenda L. Temple, clerk; Bernard Brenner, Anita R. Brown, Howard Conley, Timothy J. Galvin, and John J. Aguirre.

The CHAIRMAN. Mr. Ambassador, we welcome you back to this committee.

Mr. Secretary, we welcome you. I don't know if you'd like to sit at the witness table, or would you rather sit as a visitor?

I apologize for being late. I've been to the eye doctor this morning. I've had a little eye problem, an accident I had several weeks ago, and I spent my morning there, and I got delayed.

We apologize that we have several other competing factors this morning, Mr. Ambassador, but we welcome you, and we know you are pressed for time. We'll be very happy to hear from you at this time.

STATEMENT OF CLAYTON YEUTTER, UNITED STATES TRADE REPRESENTATIVE

Mr. YEUTTER. Thank you very much, Mr. Chairman. It's nice to be back before the Agriculture Committee, and it's good to have a chance to concentrate on agriculture for a few minutes this morning after concentrating on some other topics over the last few days.

Let me start by just making some brief remarks, if I may, Mr. Chairman, and then we'll go to questions. As you probably know, I have another commitment at noon, so I may not be able to stay quite as long as Secretary Lyng can. We'll leave all the hard questions for Secretary Lyng, and I'll take the softball questions while I'm here.

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Three or four points on trade policy related to questions in your deliberations on H.R. 3.

First of all, I hope that the test that you apply to these particular provisions or potential provisions would be the same one that we asked the Ways and Means Committee to apply to the legislation that was under their perusal and consideration here 2 or 3 weeks ago. We think the criteria are sound, and I would commend Chairman Rostenkowski and Subcommittee Chairman Gibbons and both Democratic and Republican members of the Ways and Means Committee for doing precisely that in their committee deliberations.

The bill which emerged from that committee is certainly not perfect. It needs some more work, but it's come a long way, and I hope that your contributions will be similar.

These are the basic tests that you might just jot in the back of your minds as you consider this legislation over the next few days.

One is, will or will it not enhance our international competitiveness? Is what you propose to do something that will contribute positively toward our competitiveness internationally?

The second one, particularly important from my standpoint is, will it enhance our negotiating leverage? Particularly from the standpoint of USTR, is this something that will give us more or less negotiating leverage internationally?

The third one, is it or is it not GATT-compatible? That is, does it violate our international obligations? Obviously we ought not to be passing legislation that would be in violation of the GATT or any of our other international obligations.

And then finally, will it or will it not likely provoke retaliation from our trading partners, or as an alternative to retaliation, the enactment of mirror legislation? In other words, would our trading partners pass legislation similar to this, and use it against us? Sometimes we have more to lose in that kind of an exercise than other nations in the world.

Now I won't make that evaluation of the provisions that are before you. I will leave that to you. But I would like to comment on a few of the proposals.

One is the proposal that emerged from the Export Commission activities of some months ago which provides that USDA become the lead agency on trade issues involving agriculture. And with all the great respect I have for Secretary Lyng, I still think that's not a good idea. And although that may sound self-serving, because the alternative to that is to have the lead agency be the U.S. Trade Representative, I really believe that's the sound way to do it.

In my judgment, Mr. Chairman, making any individual Department the lead agency on a particular issue involving international trade is going to be very damaging in the long run to that Department and that industry. We just simply can't run trade policy in this country with one piece of it being in one Department and another piece in another Department and a third in another Department and a fourth in still a different Department.

There is already a lot of criticism that our trade policy isn't as well coordinated and coherent as it should be, and I happen to think there are some things we can do to make it more coordinated, more coherent. However, this proposal clearly would go in the

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opposite direction, and I don't think that's in the best interest of the United States as a country, and I don't happen to think it's even in the best interest of agriculture. If agriculture isolates itself into a compartment, it will ultimately pay the price for having done so, and I see that as a negative rather than a positive.

The second issue would be the question of extension of the Export Enhancement Program to be across-the-board in its scope. I know that Republican members of the committee just had a press conference a few minutes ago with some discussion of this point. I would only say now, and perhaps we can have additional discussion on this later, that moving to an across-the-board Export Enhancement Program would be a fundamental change in policy for this country and this Government. It would move us very close to the common agricultural policy, which we've been attacking with great vigor in recent years, and I really cannot subscribe to that proposal.

It seems to me that we ought to continue to use the Export Enhancement Program as a tactical tool, rather than as an across-the-board subsidy program. If we use it as an across-the-board subsidy program, it will not only generate enormous criticism around the world, and justifiable criticism, but it also could cost an enormous sum of money, and I don't really believe that it would enhance our negotiating posture.

So, as much as I share the objective of all of you to try to move our surpluses onto the world market, I really believe there are better ways to achieve that than an across-the-board export subsidy program.

There are also some suggestions in this package that we, the United States, ought to negotiate some agreements on excess production—in other words, some way to trim back production in the major exporting countries of the world. Again, that has a superficial appeal because of the gigantic surpluses that exist around the world, but achieving it without putting ourselves in some kind of a market-sharing agreement of the kind that we had with the International Wheat Agreement back in the 1960's, would be very difficult indeed.

We are not likely to find that to be advantageous for the United States for a whole lot of reasons. I would let Secretary Lyng comment on that some more when he has an opportunity, if he wishes, but certainly my opinion is that international commodity agreement kinds of programs just do not work very well. They have been conspicuous by their failures rather than by their successes.

There are also some proposals here, Mr. Chairman, that change section 22, particularly in the tobacco area. And without getting into the merits of that particular proposal, I would simply say that we should change section 22 only after giving it a great deal of thought. I doubt that we can make changes in section 22 in such a way to avoid jeopardizing the very existence of that waiver under the GATT rules.

In other words, there is a provision of the GATT that has for a number of years now given us the privilege of continuing import restrictions on a number of our agricultural products. It was intended to be a temporary waiver of the GATT rules, and we've come under a lot of criticism internationally for having continued

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our section 22 programs long past the time that anybody else in the world feels that they should have been continued.

If we make changes, we jeopardize that GATT waiver, and although that may or may not provide some benefits to a given industry which is the subject of those changes—tobacco apparently in this case—we have to recognize that there are section 22 provisions for dairy and peanuts and cotton and sugar and a number of other products, all of which would be placed in jeopardy by such legislation.

Finally, I would just say a word about the Uruguay Round, because I think that's important to all of you, and that's really the key to dealing with the major problems we have in agriculture today. That Round is now organized and going.

The Agricultural Working Group and a number of the other groups that are important to all of you are underway. There are 15 negotiating groups that have been established in Geneva. The chairmen have all been appointed. We are pleased with the makeup of the chairmen, including the chairman of the Agriculture Committee, Mr. De Zeeuh of the Netherlands, in whom we have a great deal of confidence. There have been a number of meetings held already on agriculture and the other negotiating topics. They will continue all through the year. We're going to try to advance that cause as rapidly as we can, and we also have, Mr. Chairman, an opportunity to do some of that in some additional meetings that are coming up very soon.

I just returned from a meeting of Trade Ministers in New Zealand a few days ago, in which agriculture was the major item on the agenda, and I can share observations from that with you, if you'd like me to. We have an OECD Ministerial meeting coming up in May in Paris, where both Secretary Lyng and I will be in attendance. We'll try to advance the cause there; agriculture will be prominent on that agenda.

Then the Economic Summit with President Reagan and six other Chiefs of State will take place in Venice, Italy in early June. Agriculture will be on that agenda as well.

Hopefully, we will be able to systematically build momentum for these negotiations in all these meetings and try to advance the cause in Geneva in the process.

Mr. Chairman, I think that's a quick overview. I could spend a lot more time, but it might be better to use the time for questions, so I'd be happy to take any questions that any of you may have.

[The prepared statement of Mr. Yeutter appears at the conclusion of the hearing.]

The CHAIRMAN. Thank you very much, Mr. Ambassador.

Mr. Secretary, do you have a statement?

Mr. LYNG. Yes, I do have a statement, Mr. Chairman, but it is my intention to summarize that and submit it for the record, if that is agreeable.

The CHAIRMAN. That would be agreeable, and then we can have questions of you and Mr. Yeutter.

Mr. LYNG. Fine.

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STATEMENT OF RICHARD E. LYNG, SECRETARY, U.S. DEPARTMENT OF AGRICULTURE, ACCOMPANIED BY DANIEL AMSTUTZ, UNDER SECRETARY, INTERNATIONAL AFFAIRS AND COMMODITY PROGRAMS, AND WILMER D. MIZEL, ASSISTANT SECRETARY, GOVERNMENT AND PUBLIC AFFAIRS

Mr. LYNG. First of all, let me say that I agree 100 percent with what Ambassador Yeutter has said with regard to the trade legislation, and in my statement, there is nothing that would in any way differ in that view.

My statement does point out the importance of agriculture to the Nation and the importance of trade to agriculture. Both of those areas are well-known to this committee, and I won't go into a lot of detail about that.

The fact that agriculture is the largest and most important industry in the Nation seems to me to be fully recognized by not only this committee and those that are here today, but I think we can be pleased, as agriculturalists that Clayton Yeutter is in the Office of the U.S. Trade Representative. He has held positions in the U.S. Department of Agriculture, and as a farmer from Nebraska, has a strong interest in agriculture trade.

It has been a pleasure for me to work with him as Secretary of Agriculture, and we have worked very closely together. And as he pointed out, we intend to continue to do that.

The GATT negotiations in Geneva are the most important single issue facing agriculture in the longer term. As Ambassador Yeutter pointed out, it's absolutely essential that those negotiations produce the kind of world order necessary for sensible agricultural trade.

We must not in any trade legislation that is adopted, take steps that would weaken the position of our negotiators. I think was made clear in Ambassador Yeutter's statement, but I feel strongly that we have to be very careful about that point. It will be very difficult to come out of those negotiations with agreement. But the alternative is a continuation of worsening chaotic trading conditions with the United States as well as other countries digging more deeply all the time into our Treasuries to make us competitive in the world.

At some point it has to end. We have the opportunity in this country to have strong agricultural exports by using our comparative advantage. We should not be forced because of the actions of other governments, to constantly be in a highly competitive, highly subsidized mode. That is not good for us or for the world, and it's something that we're determined in this administration to bring to a close.

In the meantime, we're working hard on a bilateral basis wherever we can to improve trade situations. Ambassador Yeutter and I will be in Japan within a few weeks seeking to put an end to the quota on beef and citrus in that market. We will also be addressing a number of other U.S. agricultural and food items that are badly discriminated against in Japan. These are not new issues, but we're going to keep pushing on them, and we feel that the time is there for further progress to be made.

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With that, Mr. Chairman, I'll close and be happy to try to participate with the U.S. Trade Representative in trying to answer questions.

[The prepared statement of Mr. Lyng appears at the conclusion of the hearing.]

The CHAIRMAN. Thank you very much, Mr. Secretary.

We also welcome Mr. Amstutz, and I'm sure you'll be available for questions.

Mr. AMSTUTZ. Yes, Mr. Chairman.

The CHAIRMAN. Mr. Rose.

Mr. ROSE. Mr. Ambassador, it's an honor to have you before our committee today, and I thank you for your comments about imported tobacco.

The International Trade Commission has ruled that, in effect, in its opinion, that imports of foreign tobacco can never affect the Tobacco Price Support Program, and that's where the suggestion of this language came from, and it would only relate to that particular narrow area, and the Ways and Means Committee staff has indicated to us that they didn't think there was a GATT problem with it. It's Mr. Hopkins' language that was put in last year's trade bill, and the Ways and Means Committee kept it in this year.

But you think it ought to go?

Mr. YEUTTER. Well, I'm not sure, Charlie. All I would say is that we need to very carefully look at the language, and let's make sure that we do not jeopardize that waiver.

Mr. ROSE. That's fine.

Mr. YEUTTER. If we can draft it in such a way that we can solve the problem without causing GATT incompatibility, we'd be delighted. So it is conceivable that our General Counsel's office has already looked at it. I'm just not sure. But let's make darn sure that we don't cause any difficulties.

Mr. ROSE. Thank you.

Very briefly, we all appreciate the work that you and your office did on the section 301 case, manufactured cigarettes going into Japan. It was successful. But in the farm bill of 1985, we put in an amendment that requires Mr. Lyng's shop to tell us who is importing tobacco into the United States and from what countries it's coming. And we have just discovered that over all of 1986, only 800,000 pounds of tobacco came into this country from Japan. But already in 2½ months of this year, over 4.5 million pounds of tobacco have been imported by the major cigarette manufacturers from Japan.

Mr. Ambassador, was that a part of the deal? In other words, did the American cigarette companies have to agree to buy Japanese tobacco in order to get access to the Japanese market?

Mr. YEUTTER. No, that's not a part of the deal at all. That was never, ever discussed in the section 301 case. The section 301 case dealt entirely with our access into the Japanese market, and as you know, it dealt entirely with tobacco products—that is, the duties that they have on American cigarettes—and assuming that my information is accurate, those duties were lowered just this last week in compliance with our agreement, so apparently we're done with that case. Access for our cigarettes going into Japan should go up in a very dramatic way.

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But there is nothing in the agreement that affects tobacco coming the other direction. Now if that tobacco is coming in at prices below cost, Congressman Rose, then our tobacco industry ought to look at that very carefully, because that would constitute potential cause for an antidumping action. But there is absolutely no commitment of any kind on anybody's part to take any amount of Japanese tobacco into the U.S. market.

Mr. ROSE. One last question. Egypt has indicated, or has received GSM-102 credits to purchase U.S. leaf. Would you agree that U.S. leaf means U.S.-grown leaf? We are concerned that some unscrupulous tobacco dealers in this country are blending 25, 30 percent foreign tobacco with American-grown tobacco and exporting it as U.S.-grown tobacco. You would agree that U.S. tobacco means U.S. tobacco, wouldn't you?

Mr. YEUTTER. Well, I would agree with it as a general concept, Congressman Rose. There are what are called rules of origin in this area to deal with that kind of situation, and I can't tell you offhand what the applicable rules might be, but I would be glad to check them out for you. I don't know whether Secretary Lyng wants to——

Mr. ROSE. The Secretary—the head of his Foreign Agricultural Service was before us about a week ago, and he agreed that it should be U.S. tobacco. But I just wanted to make you aware of that particular problem.

Mr. YEUTTER. I'm happy you did. I'd like to take a look at it just to make sure that that is a correct interpretation under the applicable rules of origin.

Mr. ROSE. Thank you.

Mr. LYNG. It clearly is applicable under Department regulations of the GSM-102 program.

Mr. ROSE. Thank you both very much. Mr. Chairman, I thank you for recognizing me.

The CHAIRMAN. I thank the gentleman.

Mr. Jeffords.

Mr. JEFFORDS. Thank you, Mr. Chairman.

Mr. Ambassador, it is good to have you before us.

Mr. YEUTTER. Thank you.

Mr. JEFFORDS. It won't surprise you when I want to talk about dairy, I'm sure, but as you know, when we go to the trading table in GATT, it makes us very nervous, those of us who represent the dairy industry, because when it comes around to deal something away, it seems to be the dairy industry that ends up being put on the table.

I would like to make you aware of the present situation that we have right now in dairy, and then get down to a couple of observations and perhaps questions.

The wholeherd buyout which we have just gone through has been very successful, and we have got the cost of the program way down, down by over 55 percent, and about $700 million of that was contributed by the dairy farmers themselves. The situation now is quite stable. However, we have seen over the last few years that casein imports have gone way up, and even just in the recent year, if you take the 1981 to 1985 as the base period, we have had a huge

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increase, which has essentially displaced about 1.6 billion pounds of milk equivalent.

What I am concerned about, obviously, is if we go into these negotiations that you are aware of what the circumstances are, and then we can hopefully not do anything which will bring instability back into one of the only successful, really, agricultural programs we have going right now. So I had two basic concerns.

One is that with the EEC's very incredible surpluses that they have, and their deep desire to get rid of those surpluses, that somehow that is going to get into the negotiations, and much to the disadvantage of the dairy farmers.

I would hope that we could, as I think the trade bill would try and do, remove the exception for casein as a food product, because it is displacing huge amounts of milk equivalent. Just this past year, probably 1600 dairy farmers went out because of the excess increase in casein imports.

I also would urge you to keep the quotas on the cheese relatively stable so that we don't mess up a program which is working pretty well right now, and I appreciate any comments you might have, and want to make sure that you are aware of our plight in the dairy industry, and our desire to maintain the stability which we are apparently approaching.

Mr. YEUTTER. Thank you, Mr. Jeffords.

First, with respect to casein, we would have no objection at all to the redefinition of casein, because obviously it is a food product from the standpoint of the issues that you have been articulating.

With respect to the broader question of dairy quotas and dairy trade, I'd like to answer this way:

First of all, you and other members of this committee and representatives of the dairy industry will have ample opportunity to have an input into the negotiating process, and to counsel with us as these negotiations unfold.

As you already know, Mr. Jeffords, we have got about 40 private sector advisory committees for USTR, one of which deals with dairy issues, and we have an agricultural policy advisory committee with which Secretary Lyng and I meet frequently, and a number of other committees that delve into the dairy area indirectly. So there should be ample private sector input. We will be glad to make sure that everybody has a chance to make that input, and we will be happy to continue a consultative process with all the relevant committees in Congress, including this one.

So we will not do anything on dairy without you being fully informed of what our overall strategy is and what our objectives are, and so on. This is not to say that there will not be changes in the dairy program before this exercise is over. I am certainly not going to make that kind of commitment. But there won't be any surprises.

I would simply say in terms of the total picture, we don't want to take anything off the negotiating table, at least not at this point. We may make a calculated judgment call to take things off the negotiating table at some point in the Uruguay Round, but not now because if we begin to take anything off the negotiating table at the very early stages, it will precipitate a run by everybody else.

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There will be other countries taking a lot of things off the table that would be of interest to us.

So we want to keep everything on the table from a negotiating standpoint, as we enter this exercise.

The other point I would make in that regard is that Secretary Lyng and I both have been arguing that we have to get to the heart of the agricultural problems of the world in this negotiation. We can't do this piecemeal, and we can't work on it at the margin. The difficulties in agriculture internationally are too great to just nibble around the edges. We've really got to get to the heart of the problem, and you've got the whole policy structure in essence on the negotiating table in Geneva. If we are going to ask the European Community to put their whole structure, meaning the whole common agriculture policy, on the negotiating table, we can't come to them and say, "Well, we'll talk about part of our policy here, but not all of it."

So I think we have got to get it all there, and then make our judgment calls as the negotiation proceeds, as to how we handle them.

Mr. JEFFORDS. I understand that, and I just would say that I know they have a mess in their dairy, and I just don't want to make their mess our mess.

Mr. YEUTTER. Yes. I fully understand.

The CHAIRMAN. Mr. English.

Mr. ENGLISH. Thank you very much, Mr. Chairman.

Mr. Ambassador, I notice that you have stated in glowing terms your thoughts with regard to the promise of GATT and the discussions that are taking place there, and the hopes that you have for it, and you really seemed very enthusiastic about that.

Then, on the other hand, whenever you discussed us getting together a portion of those GATT representatives, those people who would talk specifically about grain surpluses and ways in which we can reduce that grain surplus and ways in which we can strengthen the market, you were totally opposed to the idea. I really have difficulty understanding what makes the GATT so great when you get all these other countries together and discussing all these other issues, but your opposition to a small number of those representatives who are at GATT getting together and discussing one specific problem. It's well known that GATT takes 5, 6, 7 years sometimes before you see anything produced by it. Our surpluses are going to be mighty big if they continue to grow at present levels.

Could you explain to us why you oppose a discussion by these folks, particularly when it's been stated that they would not be discussing market shares or minimum prices, simply ways in which we could reduce surpluses?

Mr. YEUTTER. Well, I would be glad to comment, Mr. English. I really don't oppose people getting together and having discussions any time. The question is what might reasonably be achieved out of those discussions. So let me try to put it in perspective.

I hope, Mr. English, that we do not have to wait 5, 6 years on agriculture. In my judgment, we cannot afford to do so, and I have been telling all of my fellow Trade Ministers that over and over again in meetings, including at the meeting this last week in New Zealand.

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I am not sure how fast we can bring a full scale negotiation to a conclusion in agriculture, but I really think we ought to shoot for doing it in 2 years in Geneva. We cannot complete the entire negotiation in 2 years by any means. There is just no chance when you have 15 negotiating groups. But I am not convinced that it is impossible to do part of the exercise in 2 years or thereabouts, and I would put agriculture in the category of subjects where we ought to move on a faster track.

Now that causes lots of trepidation in Western Europe and elsewhere, but the fact of the matter is we are all going to spend enormous quantities of money on farm programs of various kinds if we don't do this relatively soon.

As you know, we are spending $26 billion, or thereabouts, this year. The Community is probably spending more than that. It's just madness in financial terms, and I have told our friends in the Community that if they want to stall the negotiation for a lengthy period of time, they can probably do so, but they better have deep pockets, because it's going to be an extremely costly proposition.

So it seems to me it is in the interest of all of us to try to do the GATT negotiation as quickly as possible. If we can do it in 2 to 3 years, Mr. English, then the question becomes what, if anything, should be done multilaterally in the short run, between now and then, which is really your question. I guess my general feeling is that there isn't a whole lot that one could do in the short run without taking away time and effort and energy that is devoted to the other negotiation.

So I have a hard time visualizing what we could do that would be beneficial in the short term. Maybe I am missing something that you all see, but I just don't see much there in the way of short term benefits.

Mr. ENGLISH. I guess, Mr. Ambassador, I am not really catching what you're saying. It sounds to me like you made an awful good case for pulling away at least those more specific problems that we have in agriculture and addressing those and trying to deal with them as quickly as we possibly can and bringing about some improvement and correction. Now that's basically what we're talking about.

Mr. Secretary, as you know—I know you were down in our State of Oklahoma recently, and are aware of the tremendous difficulties we have had down there weatherwise, not only from preventive planning, but of course a lot of our hay production has been in areas that were flooded last fall and wiped out our hay production in that area. You have it within your authority to allow haying of winter wheat if you so wish. Could I make a very strong plea in behalf of Oklahoma and our producers down there, Mr. Secretary, to allow the haying of this winter wheat crop this year?

Mr. LYNG. Mr. English, you're right, I was in Oklahoma a week ago and came home with the message from a number of people that it would be desirable to permit haying and grazing on program crop acreage, because of the flooding conditions and the shortage of feed. We are giving that full consideration right now under a crash program. We hope to have a decision within a matter of days.

Mr. ENGLISH. Thank you very much, Mr. Secretary.

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Thank you, Mr. Chairman.

The CHAIRMAN. Mr. Hopkins.

Mr. HOPKINS. Thank you.

Mr. Ambassador and Mr. Secretary, welcome to our committee. Let me examine with you, if I may, just briefly the part, Mr. Yeutter, about section 22, that the chairman of our subcommittee addressed briefly. And if I may set the parameters by saying to you that several years ago, you know, Paul Revere went riding through this country warning the people that the enemy was coming, and it was a rather easy job compared to ours, because at that time the enemy were all wearing bright red coats. Nobody else had any bright red coats. But those of us these days who try to ride across the country telling the people that the enemy is coming have a more difficult job because so often the enemy is dressed just like we are. The most difficult of all, I suppose, are those who don't even know that they are the enemy and are advocating things that I don't believe, Mr. Yeutter, are in our best interest.

In my State of Kentucky, 2 years ago, our number one cash crop, tobacco, brought in $1 billion. Last year it brought in $477 million. The truth is what the people perceive it to be, and the perception we have, as far as agriculture in some areas in this country, is not as good as I would like for it to be, as it relates to our government.

Insofar as section 22 is concerned, as the chairman pointed out, it was my amendment, and I hope that you will re-examine that, because all this amendment does is allow the ITC to consider the amount of no net cost assessments that American producers must pay as one factor in determining whether imports are interfering with the United States tobacco program.

You know, nobody needs to remind you that when large amounts of foreign tobacco come into this country and displace our tobacco market, our tobacco, that is American tobacco, has no place to go except into the government loan program, and our farmers, the American farmers, pay for that.

This amendment, which has already been included, simply would allow the ITC to look at the amount of no net cost fee that a farmer must pay and consider that factor, along with all other factors in deciding whether imported tobacco is interfering with the United States program. So I would urge you to look at that.

As the chairman brought out just a few minutes ago, we met just prior to this meeting, and he informed me that last year Japan, as an example, sent into this country 800,000 pounds of tobacco. This year so far, in 2½ months, Japan has sent in 4.5 million pounds of tobacco.

That gets into the perception problem, I think, that many of us are having, and we appreciate, as an example, that the Japanese are sending in a lot of their automobile industries. They are sending one into my district, the largest single investment Japan has made in this country. We appreciate that. But that's no reason for us to make this, in my view, the United States of Japan. And I would urge you to look very carefully—you suggested that we—I believe you said—give this a great deal of thought. I have. And I hope that you will re-examine your position on section 22, and look and see whether or not it is fair to our country, so that we might be able to say that we are putting America first. And I would hope

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that you would re-examine your position on that section, Mr. Yeutter.

Thank you.

Mr. YEUTTER. Well, what I would say, Mr. Hopkins, is the same as I said to Congressman Rose. If it can be done in a way that will not jeopardize the GATT waiver, then I have no problem.

If we do jeopardize the GATT waiver, though, you are going to have a lot of unhappy colleagues sitting around this table, because if it jeopardizes our dairy quotas and sugar quotas and a number of other quotas, there will be a firestorm here on Capitol Hill as well as around the country. So that's why I said it has to be done with great care, because you will have civil warfare within American agriculture if that GATT waiver is jeopardized.

Mr. HOPKINS. I don't believe that it does, and I would hope that you would re-examine that.

Mr. YEUTTER. OK. We'll be happy to.

Mr. HOPKINS. Thank you, Mr. Chairman.

The CHAIRMAN. Mr. Panetta.

Mr. PANETTA. Thank you, Mr. Chairman.

Welcome, Mr. Ambassador and Mr. Secretary.

Because I happen to represent a free market area, I don't need to talk to you about what is happening on artichokes and lettuce, but I do want to talk to you about just the general——

Mr. YEUTTER. About semiconductors.

Mr. PANETTA. That's right, because the problem in my area is one that relates to the overall issue. Right now you are in the center of the storm that is obvious to everyone as a result of just reading the headlines today. We have a situation where you've retaliated on the computer chip situation, and obviously it's causing the yen to fall; the stock market went down 60 points yesterday. The threat is obvious that if it continues it could hit interest rates in this country, as well as be a potential for inflation, which would really be devastating to our general economic situation.

My question is, where are we going with this? Are we on the brink of a trade war, or is this just a lot of huffing and puffing?

Mr. YEUTTER. Well, in my judgment, Mr. Panetta, that's an excellent question. I am pleased to have a chance to comment on it in light of all of the turmoil of the last 24 hours or so.

In my judgment, we are not even close to a trade war. I would not expect a trade war to emerge from this dispute any more than from any one of a whole host of additional disputes. All we have really said in this connection, Mr. Panetta, as you well know, is that we'd like Japan to fulfill its obligations under that semiconductor agreement. We have not cancelled the agreement, we have not indicated any desire to terminate it. We think it's a sound agreement. We simply want our Japanese friends to do what they agreed to do, and that is to stop dumping in third country markets and to truly open their markets so that our semiconductor firms can sell in Japan.

If they will do that—and I see no reason why they should not, if they are committed to fulfilling their obligations—then the retaliatory response will last a relatively short period of time, that is until such time as they have demonstrated that they are in compli-

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ance with the agreement, and we will be back to normalcy in the relationships.

Why there was such a market response to that is really beyond my comprehension. There is nothing in economic terms that would justify the response that occurred yesterday. I would consider it to be a gross overreaction to the situation that prevails. I am sure there are some in the marketplace that are concerned as to whether or not the large flow of Japanese funds coming into the American market would cease because of the conflict between our two countries, but it seems to me that requires the premise of a trade war or something approximating it. If the premise is faulty, then the conclusion is also faulty. It seems to me very likely that the Japanese investors will continue to find the United States to be a very profitable and attractive marketplace, and if that be the case, then there is no justification for the kind of market response that occurred yesterday.

Mr. PANETTA. In this business, it's tough to find the words to work with, because on one hand, it could be called a trade war, the potential of a trade war; on the other hand, it could be called just tough negotiations, and I have the same problem between trying to find the difference between what people call protectionism and tough negotiations.

My question is, Are we on the brink of a new tough policy regarding trade? It certainly appears to be the case. This administration has argued free market, has basically argued against amendments that would get tough in terms of any kind of retaliation here in the Congress, and yet I see a very clear indication that the administration is now engaged in what I would call a get-tough policy regarding our trade relationships with other countries. Is this true?

Mr. YEUTTER. We have been tough for quite a few months now, Mr. Panetta, but that fact hasn't been fully appreciated, either on Capitol Hill or throughout the country, probably because it hasn't had as much public exposure as this particular incident of the last few days has had. But, the fact is that we came very close to a retaliation against the European Community on the accession of Spain and Portugal and the trade damage in agriculture that would be experienced from that. That was a case that came within a few hours of retaliation in January.

We also had planned retaliatory actions against Japan on tobacco products. That case was settled as the paperwork was going to President Reagan. It was a case that was considerably larger than this one.

We also did a partial retaliation against Japan on leather and leather products here about a year or so ago. So I happen to think we have been following a very tough policy now for the last 18 months or so. It just hasn't been generally recognized. But it's not a protectionist policy.

Mr. PANETTA. Tell me the difference so I know.

Mr. YEUTTER. Well, I think there is a lot of difference, as a matter of fact, and it's important to recognize that. If one is really attempting to stop imports, one can do that with a lot of different measures, if the inclination is protectionist. We are not trying to stop imports in the semiconductor case at all. We'd be happy to have imports continue to flow into the U.S. market, but we are

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going to stop them if the Government of Japan reneges on its obligations, because that is our only weapon to deal with what we believe to be an improper response on their part.

So this is not protectionism in any sense of the word, and the media that has interpreted it in some cases as protectionism is just dead wrong.

Mr. PANETTA. Thank you.

Thank you, Mr. Chairman.

The CHAIRMAN. Mr. Stangeland.

Mr. Roberts.

Mr. ROBERTS. Yes, thank you, Mr. Chairman.

And to Vinegar Bend, and to Clayton, and to Dick, and to Dan, I hasten to add, honorable Secretaries and Ambassadors all, welcome to the continuing saga of when the going get tough, why, the tough get going in terms of trade talks.

You have before you the outline of a Republican list of initiatives put forth by the Republican members of this committee, and we are here to urge and plead and cajole and push and shove and give you a sharp elbow to the ribs in behalf of those initiatives.

The question is will you consider them, and the answer is of course, yes, and so I'll go on to the next question.

I want to go back to your statement, Mr. Ambassador, on the use of the Export Enhancement Program. You said that if I am right here, we want to use it as a tactical tool. I for one have been a supporter of using EEP, if I can use the acronym, not as a selective trade policy tool, but as a means also, not necessarily in an adversarial role, an either/or, but to move the grain. You say there are better ways to do it.

In meeting with the Department in the past and the DORFA Subcommittee, we even made—I think we even got a smile out of Dan Amstutz one time when we were visiting him and smothered him with the milk of human kindness, and said why don't we move the grain as well as using this for the people who have been unfairly competing with us.

I guess my question is, is there a situation now when the Soviet Union obviously needs the grain, and when we have used this program with the Peoples Republic and other countries, to the extent that we do not think the foreign policy considerations would be that grave? Is the door open, hopefully, is the door open? Will something happen in the next 2-week timeframe prior to Secretary Shultz going to Moscow, where we might see in the Soviet Union a repeat of what happened last year might be in the offing?

Mr. LYNG. I will give a nonanswer to that, Mr. Roberts. The answer really is I don't know, but if I did know, this would not be the place to make the announcement.

Mr. ROBERTS. I have already announced the sale in the earlier press conference, and so by that [laughter] I can anticipate what you are really trying to tell me.

Let me go on to another question.

There is a serious problem here, because the Economic Research Service has just concluded a report that said that a planned economy, i.e., the Soviet Union and others like China, do represent a growing export market, up to 50 percent of the world market in regards to our wheat exports. I think that includes all grains.

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Is our program under EEP flexible enough to match that demand?

Mr. LYNG. Yes, I think so. I believe that the EEP has been in the nature of an experiment. I'm not suggesting that everything that we've done in that has been perfect. But it has been a flexible program and I would suggest that it will continue to be flexible. And it has been the kind of a program that we have accomplished quite a lot with. I believe 20 percent of our wheat exports have been derived by the EEP program.

Mr. ROBERTS. I'm going to ask you one other question. H.R. 3 does propose some substantial changes in regards to the USDA and how you are organized down there, in regard to trade—I'm talking about title VI. We propose, if I am right, new responsibilities, two new Under Secretary slots, two new Assistant Secretary slots, the creation of several offices, and obviously we require some additional reports. We don't do anything in terms of reorganization around here unless we require you to report to us to make sure you're doing the job.

How are you going to live with this? Are you in favor of this? You know, this is a chart change that some of us feel could better streamline, make your job easier. What do you think of this?

Mr. LYNG. I don't think it's a very good idea, to put it very bluntly. I'm in my tenth year in one job or another in the Office of the Secretary of Agriculture, and I think I know a little bit about how the Department works and should work. I don't think that the provisions in title VI would be helpful.

As a matter of fact, I would concur with Ambassador Yeutter's statement that it would probably set us back. Our ability to move and to make decisions in the short term would be very badly harmed by going through that kind of a reorganization. I would very much personally, and on behalf of the administration, oppose that title VI.

Mr. ROBERTS. I thank you, Mr. Chairman.

The CHAIRMAN. We have a vote on the floor.

Mr. Ambassador, your time constraint, was this about it?

Mr. YEUTTER. If you'd like, I'll stay on a few more minutes, Mr. Chairman, if you have some more questions.

The CHAIRMAN. Our problem is we will be gone for about 15 minutes or so for a vote.

Mr. YEUTTER. OK. I will try to stay till about 12:30. That's about the best I can do.

The CHAIRMAN. We appreciate that.

I will ask the members to come back as promptly as possible, and we will call a very short recess.

[Recess taken.]

The CHAIRMAN. The committee will be in order.

Mr. Stenholm.

Mr. STENHOLM. Thank you, Mr. Chairman.

We welcome all of you to the committee. I am a vocational agriculture teacher by training and was taught that if something looks like a duck, walks like a duck, and quacks like a duck, most of the time it will be a duck. But when we talk about trade policy, I'm having all kinds of difficulties determining what's a duck and what's not.

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On page 1 of your testimony, you state,

> There are still major problems with some of the trade provisions because they fail to meet one or more of the following tests, and one of those tests is likely to provoke retaliation or enactment of mirror legislation, which would be harmful to US exports.

Could you help the committee understand more about what are some of those considerations that we ought to look like or look at, and what the difference is between what we are considering and what you as a Trade Representative might look at?

Mr. YEUTTER. I'll certainly try, Mr. Stenholm, and I'll try to simplify it as best I can, because it's a very complicated area, obviously.

First of all, the provocation of retaliation is basically a question of whether or not we enact something into law that would be incompatible with the GATT or some other international agreement that we may have. That's the issue in which I had the colloquy a few minutes ago with Mr. Rose and Mr. Hopkins; that's just one example. But there are a lot of others.

For example, the present House trade bill that was discussed in the Ways and Means Committee has a number of dumping provisions that are clearly incompatible with the GATT Antidumping Code. If those become law, we'll be challenged in the GATT; and if we lose the GATT case, the adversely affected countries will have the right, either to request compensation from us, that is, additional access into the U.S. market on other products, or retaliation which means they can shut off U.S. exports. That will be their right as a matter of law.

Mr. STENHOLM. If I might interrupt you there. Does that mean, in layman's language, that compensation in some of these areas could mean some of the agricultural markets that we now have may have to be given up?

Mr. YEUTTER. Absolutely. More likely on the retaliation side than compensation, but it could be compensation, too. In other words, let's just assume that the adversely affected country is Canada. And let's assume that the calculated trade damage by our legislation to Canada would be say $200 million. If there were a GATT finding that we were in the wrong with our legislation and Canada was in the right, Canada would suffer $200 million a year in trade damages as a result of our measures. Canada then has the right under the GATT rules to come to us and say,

> Mr. President, you have an obligation to permit an additional $200 million of Canadian products to flow into the United States. We'd like you to reduce your barriers to products A, B, C, D, and E, reduce tariffs or whatever it may be, so that an additional $200 million of product will flow into the United States.

It may well be that some of the products that the Canadians would ask us to open up markets on would be agricultural products; or alternatively, if we say to Canada, "Sorry, GATT ruling or no GATT ruling, we're not going to permit any more of your product to flow into the United States," then Canada has a right to retaliate against $200 million worth of our products flowing into Canada; and that could be on agricultural products or other things. That's an illustration of the way the system works.

Mr. STENHOLM. If I might switch subjects for two quick additional questions. Am I correct in saying that you acknowledge the im-

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portance of section 22 to much of our agricultural commodity programs.

Mr. YEUTTER. Well, I certainly do, Mr. Stenholm. And I must go beyond, I don't want to mislead you by suggesting that we won't negotiate on section 22 programs because we intend to do so. However, we're very sensitive to the impact that any negotiations in that area would have on the agricultural industries involved, and we'll obviously consult very carefully with you and others on the committee and with the industries themselves before we take any actions.

Mr. STENHOLM. I appreciate that answer very much.

And to you, Secretary Lyng, do you concur with the statement Mr. Yeutter made earlier, in which he said he would have no problem with the redefinition of casein as a food; do you concur with that statement?

Mr. LYNG. No, I have no problem with that at all.

The CHAIRMAN. Mr. Smith.

Mr. SMITH. Thank you, Mr. Chairman.

Gentlemen, it's a pleasure to see you here. I, like other members of this committee, salivated at the very opportunity to find you all here together, and to ask you a couple of questions.

Mr. Ambassador, I want to respond to a point that you made when you said you didn't see what we could do before the culmination of the GATT discussions on agriculture. I just want to answer for you, if I may, I think you're doing a great deal. And you're doing it through export enhancement.

As you well know, we've gone into the Chinese market with a million metric tons; we're contemplating going into the Soviet Union with 4 million metric tons. You have already identified the positions you have taken with respect to Spain and Portugal and Canada and Japan.

I'm not going to argue with you about across-the-board export enhancement, but I want to ask you, if you would consider the possibility of offering to those countries who now deal with us on a normal basis, "Buy our wheat and feed grains," and as an incentive to buy more from us offer an EEP above the normal purchase they make each year? And beyond that, rather than to offer protectionism as some want to do in this Congress, why can't we use EEP, by the same token, as a carrot, should countries reduce barriers against our products going in: Thereby giving them an incentive to deal with us through EEP rather than penalizing them or raising barriers around our own country? Would you consider that?

Mr. YEUTTER. Let me give just one part of that answer, and then I'd like to ask Secretary Lyng to comment further, because the EEP program is really his lead rather than my lead. But I'd like to make one trade policy point related thereto and that's the following:

We're not sure yet how the Uruguay Round agricultural negotiations are going to unfold, because they're just in the preliminary stages. But I suspect that one of the elements of that negotiation may well be that Nations will be given either credit or debits for what they do policywise in agriculture subsequent to the beginning of the negotiations. And that means that, as the negotiations unfold this year and next year and perhaps beyond that, depending

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on how long they take, if we or any other country take some action in our EEP or other programs that will have a negative trade policy effect, if one could call it that, we'll get debited for that.

If we take some actions that will contribute to an improved trade environment, internationally in agriculture, we'll get some credits for that. Expansion of the EEP program will likely be a debit proposition. So, even though it might help us some on the marketplace, it may cost us in the negotiations, if that's the way they're finally structured.

Now, the same thing applies to other countries, of course. We'll hold them responsible for any actions they take which worsen the situation, if you will, in policy terms and give them credit for what they might do that would improve the situation in policy terms.

So, that's one dimension of this we have talked about this morning. And our trading partners would consider expanded use of the EEP program to be a significant debit. But it also has financial dimensions, too. And I'd like Secretary Lyng to pick up on that aspect of it.

Mr. LYNG. Thank you.

Mr. Smith, as I'm sure you understand very well, the EEP is a subsidization of our agricultural exports, and we've used them on a targeted basis as needed, as required to accomplish some very important objectives.

One was to get back some lost business from what we considered unfair subsidization, particularly by the European Community.

I think that it's very important that we continue the targeted basis, because to go across-the-board with the EEP would be to put us in a position where you really wouldn't know where to draw the line.

Mr. SMITH. I'm not asking you that, Mr. Secretary.

Mr. LYNG. No, I understand. So, somewhere between those two approaches you have to make some valued judgments. And I agree with you that EEP has to be a flexible program.

Mr. SMITH. Well, I'm not going to press you on across-the-board at all. The only thing I want to impress, that I don't have to impress, upon you, the only tools we have to market internationally are the marketing loan, and that's in cotton and rice only, and EEP. That's all we have.

So, if we've got a year and a half supply of corn and a year supply of wheat around, it just seems to me that we ought to offer these as bonuses to bring down barriers in certain countries. If it's a debit, Mr. Ambassador, there are going to be a heck of a lot of debits around the world.

And I'll finish in just a moment, Mr. Chairman.

But it seems to me, in the near term the only weapon we have is EEP, because we're not going to expand the marketing loan, probably; we're not going to open up the farm bill, probably; so this is it. And I just urge you to use it with discretion, but understand it's the only game in town, and it has been successful.

Thank you, Mr. Chairman.

The CHAIRMAN. Thank you, Mr. Smith.

Mr. Volkmer.

Mr. VOLKMER. Thank you very much, Mr. Chairman.

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Now, Mr. Ambassador, there are some things that concern me when we see what the recent action you've taken with the Japanese, and I do not disagree with that. But then in the past, like a little over a year ago, the International Trade Commission in regard to the subsidized pork from Canada made a finding that there was subsidizing the hogs and put a countervailing duty on live hogs, but not on the processed pork coming in, and that's hard for me to understand.

Now, I've been in farms, and we're checking this out, that the Canadian Trade Commission in making a finding on European subsidized beef found that processed beef did come from cattle.

Now, can you tell me the difference between pork coming from hogs and beef coming from cattle?

Mr. YEUTTER. Well, being a cattleman, Mr. Volkmer, I can understand the beef part of it; I'm not sure about the pork part since I'm not in the hog business. But I suspect there's a similarity between the two.

Mr. VOLKMER. I know it sounds funny, but it's not a funny matter by pork producers, because Canada now is processing more pork and sending it in; and you have no objections to us including language in this trade bill, that's correct said, do you?

Mr. YEUTTER. I do not. In fact, I believe my staff has helped in the preparation of some of the language that is being prepared.

Mr. VOLKMER. I appreciate that very much. The other thing I'd like to address very briefly is, tell me, when is the latest case that the United States has had in regard to a GATT violation in the World Court?

Mr. YEUTTER. Well, the GATT violations do not go to the World Court, they're handled in Geneva at the GATT itself. But I'm not sure whether you're asking whether we're going after other countries or other countries after us?

Mr. VOLKMER. Other countries after us.

Mr. YEUTTER. Oh, it happens all the time. We have a whole host of them pending right now.

Mr. VOLKMER. We do.

Mr. YEUTTER. Yes. We are frequently challenged. In fact, the Congress passed a couple of bills at the end of the last session, that were challenged within about 24-hours. So, we get challenged frequently, and we challenge other countries with some frequency.

Mr. VOLKMER. Let me ask you this, a different subject matter. In regard to our forest products, the wood products, do you consider processed products such as plywood, a processed wood product?

Mr. YEUTTER. Yes, I'm sure we do, Mr. Volkmer. Help me a little bit with the context of your question.

Mr. VOLKMER. What I'm getting to is that some of us feel that that should continue to qualify for GSM-102 and 103 in agricultural product, feel very strongly about it. Do you agree with that?

Mr. YEUTTER. This is really something that should be answered by the people who administer the program.

Mr. AMSTUTZ. The problem is, many people consider it a manufactured product, and therefore, the credit extension under GSM-102 would be a violation of multilateral agreements.

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We, in the Department of Agriculture, have great empathy for those who consider wood products as farm products. And we're aware of the move to make that correction legislatively.

Mr. VOLKMER. And you have no objections to correct that?

Mr. AMSTUTZ. I don't know that the administration has a position on that right now. I have to be careful, Mr. Volkmer.

Mr. VOLKMER. Well, let me—Ambassador, we'll try and work that out with administration as we go through. But some of us feel very strongly on that, that it is an agriculture, those are agricultural products.

As long as you're talking to the Japanese I would appreciate if you talk to them about plywood, and our ability to be able to sell plywood within Japan made in the United States. That, I think, would be interesting.

Mr. YEUTTER. We talk to the Japanese about a whole litany of issues as you know, including that. They now have some issues on their agenda, too, as you can tell. Secretary Lyng and I will both be in Japan in about three weeks, and we'll have a lot of those issues on the agenda at that time.

Mr. VOLKMER. All right. Mr. Secretary, I talked to you briefly before the questioning, and we have a provision in here just as we did in the 1985 farm bill, and it's also in the trade bill, to try to put more emphasis on bartering for our agricultural products since we have quite a bit of excess of grain. Bartering with other countries for their products instead of cash. Many of the other countries, rural countries don't have that ready amount of cash.

In the past I've had responses from individuals within the Department that this is very difficult, very complex, and we're going to get to it and that type of thing. Where are we on a bartering program within USDA?

Mr. LYNG. Well, ever since I've been there we have kept our opportunities or options open on barter and we have encouraged parties interested in barter transactions. But the problem is, with most agricultural commodities the market is very clear regarding value and people prefer to do business with money. The less developed countries have very little that they can offer us that we would take at a lower level unless we subsidize the export. And we do some of that in direct subsidization and with credit. We, of course, have our Public Law 480 Program for the less-developed countries.

Those programs, it seems to me, are the primary reasons we don't have active barter transactions. For example, a country which exports oil won't give you the oil at a price lower than the marketplace on a barter. The only way we can do that is to add some amount over and above the market price to make it an attractive deal. And we haven't moved into that kind of marketing. It's difficult for the government to work out those types of transactions.

Mr. VOLKMER. If you don't mind, I'll conclude this, Mr. Chairman. I will be corresponding with your Department again in requesting a list within the last year of those countries in which we have been successful in doing any bartering and for what we've bartered.

Mr. LYNG. Unfortunately, it is not a very long list.

Mr. VOLKMER. Thank you very much, Mr. Secretary.

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The CHAIRMAN. Mr. Ambassador, we have a problem. I wonder if you——

Mr. YEUTTER. Unless there's something really major.

The CHAIRMAN. Does any member have a question that just has to be asked? I thought maybe if we allowed—Mr. Secretary.

Mr. YEUTTER. Secretary Lyng will stay. He can answer all the questions that I can answer anyway.

The CHAIRMAN. Well, we thank you very much then. Then, we'll continue the balance of the questions with Mr. Lyng.

Mr. YEUTTER. Thank you, Mr. Chairman, it has been a pleasure. I'm sorry to leave early.

The CHAIRMAN. I appreciate your cooperation. We wish you well.

We will continue with our list. Our list is not operative any more. Mr. Glickman.

Mr. GLICKMAN. Mr. Secretary, thank you very much for coming down. I just have a few fairly technical questions.

Will USDA use the discretionary authority of $500 million in EEP in addition to the mandated minimum spending level of $1 billion as provided in current law?

Mr. LYNG. We have not at this point exceeded the $1 billion, but that was a 3-year program and it would seem to me that if we continue the program, we definitely will exceed the $1 billion.

Mr. GLICKMAN. Would you use any more than $1.5, if we were to provide additional EEP authority?

Mr. LYNG. At this point, it would be premature for me to make that kind of an estimate.

Mr. GLICKMAN. Would you object to us giving you additional discretionary authority over and above what you currently have so that you have it?

Mr. LYNG. I suppose I would be scolded by the Office of Management and Budget if I suggested that we would welcome that, so if it's discretionary, I don't see how it could cause us any great trouble.

Mr. GLICKMAN. Going back to my first question, you will use the $1.5 billion?

Mr. LYNG. Yes. We are fairly close to that now for the 3 years of the program.

Mr. GLICKMAN. Do you have any idea when you would hit the ceiling, the $1.5 billion ceiling?

Mr. LYNG. No; that's premature to talk about that.

Mr. GLICKMAN. There's been some discussion of the accounting value of commodities given as EEP bonuses. When the program first started, it is my understanding USDA accounted for their value at the market value then switched to use book value for the costs which CCC had invested in the commodity in terms of loan disbursements, storage and interest.

If USDA were to revert to the original valuation, that is market value, what would the level of spending under EEP be presently?

Mr. LYNG. Roughly in the vicinity of $700 million.

Mr. GLICKMAN. If USDA were to use market value, how would that affect other USDA programs? For example, do you estimate this would have a net increase in CCC costs because using market value might displace other commodities into CCC acquisition?

Mr. LYNG. Yes. Would you comment on that, Dan?

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Mr. AMSTUTZ. It would tend to do that because we would be putting more certificates out and the more certificates that are out, the more possibility of price depressing influence and therefore more loan activity.

Mr. GLICKMAN. Do you intend to go to market value? There is some talk that you are thinking about doing that.

Mr. LYNG. Well, we are going to do whatever we need to do to accommodate the needs of that program. If the market value in terms of evaluating the costs of the program, the market value is a better figure to use. It does have a lower cost effect than if we use the acquisition value. I think there is a good chance that we may do that.

Mr. GLICKMAN. If Congress were to go to market value perhaps in this bill, and I'm thinking about offering an amendment to do that, and I'll talk to you about the language of the amendment, would you support that even if the Congressional Budget Office were to score this as a cost to the budget?

Mr. LYNG. I think there are some arguments to be made as to what is proper accounting. I think to take our acquisition costs and take that very seriously is to ignore what has happened so I don't see how anybody could legitimately score the thing at——

Mr. GLICKMAN. Do you think in fact it might save some dollars?

Mr. LYNG. Yes; I think so.

Mr. GLICKMAN. Do you have any estimates—this could be a way that we could save some money under our reconciliation process. I'm trying to figure out if you all have any estimates.

Mr. LYNG. No. We'd be happy to try to submit some for you. We have talked about this but only superficially and I haven't had it firmly in my mind.

Mr. GLICKMAN. Maybe we need to go to CBO and get them to change what they have previously told us, that they would score this as a cost, because it looks like to me it is a savings. I think it is something we may want to look at when we work on this trade balance.

Mr. LYNG. We would be happy to try to work with you, Mr. Glickman.

Mr. GLICKMAN. Thank you very much.

The CHAIRMAN. Mr. Gunderson.

Mr. GUNDERSON. Thank you, Mr. Chairman.

I would suspect, Mr. Secretary, that you enjoy this appearance, where believe it or not most of the grief was given to Mr. Yeutter not you, and believe it or not, this committee is trying to give the Department of Agriculture more authority, not less. This must be an unique experience for you.

Mr. LYNG. Mr. Gunderson, I always enjoy coming before this committee.

Mr. GUNDERSON. Thank you. I would like to pursue a couple of different issues with you if I might, in terms of the discussions on the trade bill that is before us. Mr. Jeffords, as you know, pursued some of these discussions with Mr. Yeutter.

You are well aware that we are very concerned in the dairy area as to whether we will be above or below that 5 billion pound trigger come January 1 of next year. It's pretty clear to us that our ability to export and what comes in in terms of imports will have a

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significant effect, whether it be export enhancement of the dairy surpluses or the amount of casein that comes in and displaces the domestic market.

Exactly at this point, what do we anticipate in terms of utilization of the amount of money for the Dairy Export Enhancement Program in this fiscal year? Do we expect to use it all? Can you anticipate whether additional funding would be helpful? Can you make any comments on that?

Mr. LYNG. I'll defer to Under Secretary Amstutz to answer that question.

Mr. GUNDERSON. Sure; that's fine.

Mr. AMSTUTZ. The Dairy Export Enhancement Program, Mr. Gunderson, is an in-kind subsidy program. In this particular regard, in-kind in our dairy products. So we don't envisage any impact on outlays.

Mr. GUNDERSON. No impact at all. What do we anticipate in terms of utilization of stocks as a part of that in this fiscal year; any idea?

Mr. AMSTUTZ. That's hard to say. We have had some fairly serious inquiries under this program. I really don't think I should go into the details about them but they have been a part relative to the market. It's just hard to say what will happen there.

Our inventories of certain products, our uncommitted inventories, are really quite low these days, so what we have the most of in our inventory is cheese as opposed to milk powder and butter. The world market is best for milk powder as opposed to cheese. One problem we have is the mix of our inventory doesn't really quite suit the demand of the market right now.

Mr. GUNDERSON. How does the Department of Agriculture analyze the proposed change included in the Ways and Means legislation, which changes casein from an industrial use product to a food? It is our understanding that this would require in terms of the current dairy GATT discussions that we have to bring casein into those negotiations? What is your analysis of that?

Mr. LYNG. We have already announced in this hearing and Ambassador Yeutter as well, that we have no objections to that re-classification of casein.

Mr. GUNDERSON. I understand that and I appreciate that. Do you have any analysis of what that impact will be upon the whole negotiations, whether it be section 22 or otherwise?

Mr. LYNG. No. Casein, no matter how we count casein, is a relatively modest amount of trade in dairy products. It means a whole lot more to primarily three countries, as I understand it, France, Ireland and New Zealand. They are the major exporters of casein. But it's a relatively small amount of the total.

Mr. GUNDERSON. Let's go onto another issue. As you know, many of us in the dairy area are very concerned about what we anticipate will be the administration's proposal to eliminate section 22 of the GATT Agreement.

Do you anticipate that the Department of Agriculture will be conducting economic analyses of the impact of this and other similar proposals on the American dairy industry?

Mr. LYNG. We are not proposing to eliminate section 22. Ambassador Yeutter suggested it be put on the table. Envision a world in

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which the Europeans were not subsidizing dairy exports. We might not need section 22 in the same sense that we do today and if we could accomplish that without any subsidies at all, Wisconsin dairy farmers could be benefitting from a thriving export dairy product business.

Putting them on the table is in no way and should not be assumed it is a way of doing away with it. You aren't going to give up the section 22 waiver unless you get something very definitely for it.

Mr. GUNDERSON. I think in conclusion, Mr. Secretary, if the argument which you are making is correct, we badly need some economic analysis from your Department as to the administration's proposals, so that people like myself can go home and say, yes, if we eliminate all subsidies for dairy, it will help the American dairy industry rather than hurt us and yes, then it won't matter if section 22 is or is not eliminated because here's the economic data to show what would happen.

Do you understand what I'm asking for?

Mr. LYNG. Of course I understand. It has been an issue in every one of these trade negotiations. It is why we have a waiver in the first place. It is a very sensitive issue. I think people that are concerned about it should be fully aware that this will be a part of a massive negotiation that as Ambassador Yeutter pointed out will be done in the harsh light of publicity and there will be plenty of analysis. None of this is going to be accomplished in a final sense in a short period. I think there is plenty of time to be concerned but we will be doing economic analyses of various proposals on trade modifications.

Mr. GUNDERSON. Thank you. Thank you, Mr. Chairman.

The CHAIRMAN. Mr. Nagle.

Mr. NAGLE. I have no questions, Mr. Chairman.

The CHAIRMAN. Mr. Grandy.

Mr. GRANDY. Thank you, Mr. Chairman.

I first of all would like to say thank you to both the Secretary and the Under Secretary for appearing here and helping formally and informally newer members of this committee to muddle through these elaborate programs and policies that we are talking about.

I have a couple of statements that I was going to address to Mr. Yeutter but I think you can probably answer the question as well.

Following up on what my colleague from Ohio, Mr. Smith, said about the export tools available to us, export enhancement and a marketing loan for cotton and rice, a couple of weeks ago, our colleague Hal Daub was in front of the Wheat and Feed Grains Subcommittee talking about a marketing loan as a possible export tool for wheat and feed grains. He said the following

> The marketing loan tells people like the French that we are either going to break their export subsidies or their treasuries. I don't think the common agricultural policy can stand much more budget heat before it blows up. The marketing loan could be the fuse we need to dynamite the destructive policies of the CAP.

Could I ask your thoughts on that? Before you answer, setting aside the cost of the marketing loan and the implementation, is it a negotiating tool? Is it something you could take to GATT or is it a weapon that is too severe?

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Mr. LYNG. Well, I think the implications of the marketing loan in terms of the common agricultural policy of Europeans has probably been overstated. We have had a marketing loan on rice and on cotton. Neither commodity of which is produced heavily in the European Community, so that the use of the marketing loan on those two commodities has not really affected the expenditures under the common agricultural policy.

What has had that effect has been the 1985 farm bill which lowered the loan levels and large deficiency payments which have provided a large portion of our farmers' income. But the export price for corn, for example, has been somewhat lower than the loan, partly due to the use of our certificate program, and that has been tough competition for the producers of corn in the European Community.

The Export Enhancement Program, in which we have had targeted and selective subsidies into U.S. markets taken by the European Community, markets where in many cases we had the business and had lost to their subsidized programs, the combination of that program on wheat combined with the Export Enhancement Program has cost them—combined also with the change in the value of the dollar, the dollar as compared to the German mark or French franc, has been expensive for the European Community.

I don't think it is our purpose to see the common agricultural system disintegrate as you mentioned. We very much think that what we are doing here is causing them to want to talk more and be more willing to come to the negotiating table in the GATT.

Mr. GRANDY. To follow up on something you mentioned, Mr. Secretary, do you see the Generic Certificate Program offering a certain amount of trade leverage although we don't call it as such, combined with export enhancement?

Mr. LYNG. It has given us some degree of flexibility which has helped make us competitive in exports.

Mr. GRANDY. So the intention of the Department I assume and the administration is to continue that program indefinitely for that leverage?

Mr. LYNG. That's correct.

Mr. GRANDY. Let me go around to the other side now and talk about a matter that came up. We were fortunate to have Senator Harkin this morning talking about the Mandatory Control Program and the export premise contained therein. I am quoting from a study that was done by the Food and Agricultural Policy Institute of Ohio State and Missouri.

This says

> The Harkin/Gephardt proposal requires a market sharing cartel among current exporters to maintain the parity prices in international markets.

Is that a hypothesis that does not exist? Is there such a thing as a market sharing cartel? Is that a tool that you could take to GATT or is it again something that really only exists in the minds of those of us who try to conceive agricultural problems?

Mr. LYNG. There have been of course many attempts in the history for cartels and market sharing cartels on a number of different commodities, petroleum under the OPEC and so on. In agriculture,

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we have virtually always had the view in the United States that these were unworkable.

Ambassador Yeutter earlier said that he felt that history has shown that they were unworkable. I would strongly oppose them.

Mr. GRANDY. Let me just ask you this; are there competitors out there, foreign countries, that have come to this country with overtures of some kind of a grain sharing cartel?

Mr. LYNG. Oh, yes, but not in 1981 when our exports were $44 billion, no one came to us then, but when our exports dropped to $26 billion, there were a number of people that came and suggested we freeze in place.

Mr. GRANDY. I see what you are saying. No further questions, Mr. Chairman. Thank you.

The CHAIRMAN. Mr. Jontz.

Mr. JONTZ. Thank you, Mr. Chairman.

Mr. Secretary, I might begin by reporting to you that your former Assistant Secretary, Mr. Thompson, has arrived safely in Vienna and assumed his new responsibilities as the dean of our agriculture school at Purdue. I had occasion to visit with him just yesterday back home and he informed me that he has gotten everything back in order in Vienna in these short weeks he had been back and wondered why it was taking me so long in Washington. [Laughter.]

Mr. Secretary, the Ambassador in his testimony stated that in his opinion the surpluses that we now have in the world market of wheat and feed grains are symptoms and that the problem is too much Government support and protection.

In your opinion, do you agree or do you think there are other reasons besides Government support and protection or other factors besides Government support and protection which have contributed to those surpluses?

Mr. LYNG. I think there are some other factors but I think the Ambassador is correct in pointing out that the major reason for the surpluses is because we have offered incentives to farmers to produce really for government prices rather than for the market price. Those have been high enough to stimulate excess production.

There are other factors. Most farmers plan a number of years ahead. The world surplus was stimulated by some of our own policies under the 1981 farm bill where our loan levels were high and rigid. When translated into other currencies that were very low relative to our dollar at that time, we gave an incentive for other countries to produce in excess all over the world. Since 1981 the world in general, has had favorable weather and higher production.

However, the total amount of trade has shrunk during this period. Those are all factors.

Mr. JONTZ. Let me ask this, Mr. Secretary. We have had two or three witnesses come before the Wheat and Feed Grains Subcommittee suggesting to us that one of the barriers to export expansion is the Third World debt situation and the fact that a lot of countries that have a substantial debt are under pressure to produce commodities to export and not to consume them internally and I wanted to ask for your observations about that and whether you think it would be in our country's interest if some agreement could be reached between the lenders and the Third World countries we

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are speaking of to forgive a portion of their debts in exchange for an agreement on their part to increase domestic consumption or decrease exports or increase imports from our country, whatever the case might be.

Do you think that would be a profitable course for us to pursue?

Mr. LYNG. Mr. Jontz, you are getting me way away from my area of expertise in terms of how to handle Third World debt. I can say though that Third World economic progress would be of tremendous value to U.S. agriculture. That is the place we are going to have to look for major expansion in agricultural exports.

Mr. JONTZ. As an advocate for agriculture within the administration, do you see it as within your role or could you make any recommendation to Congress about what we might do to deal with this problem? It seems to me the policies we now have are great for the banks but bad for the farmers in America.

Mr. LYNG. Yes. I'm not going to take on the bankers. I do think the need for prosperity in the Third World is something that all countries need to be involved with. As a matter of fact, that is one of the major reasons we are having a successful round in the GATT negotiations. The current export policies of the developed countries, the vigorous policies we have and the European Community and others have, are devastating to the Third World. In the longer term, it can be a very serious consequence.

Mr. JONTZ. Thank you, Mr. Secretary.

The CHAIRMAN. Mr. Holloway.

Mr. HOLLOWAY. Thank you. Mr. Secretary, I spoke to you for a second there but my major concern right now in my state is on the marketing loan or some type of help for the soybeans industry, to try to encourage exports or whatever we can do to get some type of program working.

As a state, we have dropped from 3.5 million acres of soybeans down to between 1.5 and 2 million acres. I guess the major concern to me is the fact that these people who are growing soybeans are going to affect the other crops in our state, particularly sugar and cotton.

I guess my basic question would be do you favor some marketing loan concept? Do you welcome some type of leadership or guidance from this committee which I know Mr. Huckaby is pursuing, on the marketing loan concept on soybeans? Do you agree the marketing loan is the concept we have to go to on trying to help this situation some?

Mr. LYNG. Mr. Holloway, we have not formed an opinion as to what should be done if anything on soybeans. There is no question about the problems soybeans are having or likely to have. With a loan level that is high relative to the loan level of corn and the impact that will have on production of the soybeans in other parts of the world as well as the impact on production it will have in the United States, things are out of balance. We are concerned about that.

At the Department of Agriculture, we have not yet come up with an answer. However, we have been listening to producer groups and processors and others.

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Mr. HOLLOWAY. Do you feel that we as a committee can give you some type of leadership on what direction we feel we have to go or do you——

Mr. LYNG. We have been watching with some interest the hearings that have been held in the subcommittee. Of course, we are always interested in getting thoughts from people like yourself.

Mr. HOLLOWAY. Thank you, Mr. Chairman.

The CHAIRMAN. Thank you. Judge Harris.

Mr. HARRIS. No questions, Mr. Chairman.

The CHAIRMAN. Mr. Johnson.

Mr. JOHNSON. Mr. Secretary, it is my understanding that the Republic of Korea has banned high quality beef imports since about May of 1985 and that this is in contravention of the GATT obligations on the part of that nation. I wonder if you would comment on what you believe the appropriate response from this country is and what kind of liberalization you think is appropriate?

Mr. LYNG. I wish Ambassador Yeutter were here. He has been working hard on that. He has met with the Koreans. I think from what he has told me that there is some reason for being optimistic that later in the year we will get some relief in Korea.

Mr. JOHNSON. I hope that is correct. Under the leadership of Mr. Stenholm and some others, many of us have expressed a lot of concern about the trade situation with both Korea and Japan relative to beef and it's an area we would hope the administration would take a very aggressive position on.

Thank you.

Mr. LYNG. Thank you, Mr. Johnson. We pointed out earlier that Ambassador Yeutter and I will be in Japan in about 3 weeks and beef will be high on the list of things that we are going to be talking about.

The CHAIRMAN. Has the gentleman concluded?

Mr. JOHNSON. Yes.

The CHAIRMAN. Mr. Secretary or Mr. Amstutz, the House Foreign Affairs Committee is marking up the foreign aid bill presently. They have a provision there that reschedules Title I of Public Law 480 for 5 years, adding 5 years on their rescheduling, on their payment for dollars.

Does the Department have any problem with that or any suggestion in that area?

Mr. AMSTUTZ. We don't have a position on that yet, Mr. Chairman. We will have to get back to you. Can we do that?

The CHAIRMAN. Very well. I was going to ask Ambassador Yeutter, on the European Community, their consumption tax proposal, how does this affect soybeans?

Mr. LYNG. We think it would be devastating. They are proposing that tax up over $2.5 billion which would make the products from vegetable oils like soybean oil that much more expensive. We think it would have a devastating effect on consumption and the amount that we would therefore be able to sell and we have of course protested as vigorously as we can.

We think it is a violation of GATT rules and filings that we have had. We would be forced to retaliate.

The CHAIRMAN. I don't want to get into sensitive areas but just for our own information, in the deliberations led by Ambassador

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Yeutter, let's say they are dealing with some high technology item, little buttons that glow in the dark, from a country that sells these buttons to us, but the only thing they buy from us is agricultural products.

When we are talking about retaliation or stopping the importation into our country of the little buttons that glow in the dark and possible retaliation by them, when are you brought into the picture?

Mr. LYNG. At a very early point in time. We have a Trade Policy Committee which is an interagency group in the executive branch, where representatives from the Department of Agriculture attend regularly and these matters are brought up early on.

Take, for example, the current issue of the semiconductors. We had many meetings of this Trade Policy Group going over that. Under Secretary Amstutz is generally our representative at those meetings.

When it is finished it then goes to the Economic Policy Council, of which I am a member. We were involved in meetings on that before the last year's agreement with the Japanese. We had an opportunity to speak our piece and talk about the impact this would have.

When it became apparent that the Japanese were not living up to the agreement as they had agreed to, and it began to come back again, we were involved in the discussions all the way. Even last Thursday when the Economic Policy Council made a recommendation to the President, I attended that meeting and had full opportunity to participate in the discussions as well as anyone else.

Agriculture is fully involved.

The CHAIRMAN. Let me ask you a further question. Beyond that point when you mentioned the Economic Council, at what point do you separate item from dollar amounts or is it separated? Do you deal only in the dollar amounts? They to us, we to they? Do you keep dealing with the substantive matter? Do you keep dealing with the item?

Mr. LYNG. Yes, I don't think we ever separate the dollar from the—we take a look, of course. We know that in the case of a country like Japan, it is our largest single country buyer of agricultural commodities. Obviously, we don't want to get into a major fight with them. At the same time, there are a number of things that the Japanese have done to inhibit our agricultural exports with the barriers they have in place.

I think what we want for agricultural as well as nonagricultural products is a fair trade system. If you have unfair trade on semiconductors, you are not likely to get fair trade on beef.

The CHAIRMAN. Let me just go a little further. Is there any compromise made like we are selling an agricultural product that would amount only to $1 million whereas the major item of controversy—let's say semiconductors, that's $300 million—would the $1 million item be thrown in to pacify them regardless of the impact on our producers?

Mr. LYNG. Logic would say to me that yes, that probably takes place. But, I can't think of an instance where it has happened.

Mr. AMSTUTZ. Mr. Chairman, if you recall, the Secretary said that we don't separate the dollars from the substance and what he

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was saying there is that we don't engage in a lot of tradeoffs. We consider these cases on their own merits as they are discussed and of course, never lose sight of that macro objective that the Secretary has talked about, this whole fair trade concept. You can create lots of problems if you start trading things off.

The CHAIRMAN. That's what I was getting at. Do we have a policy which encompasses all of the items or do we branch off? Right now, you are hearing perhaps too much publicity related to semiconductors. Next week maybe just beef, beef, beef. The following week maybe citrus. We wonder if we lose sight of the overall policy.

Mr. LYNG. We try not to and that is one of the reasons why I think it is such a good idea to have an office like that, of the U.S. Trade Representative, where all of these negotiations are centered and where we in Agriculture have lots of input there. The Department of Commerce has a lot of input on the merchandise trade. Others get involved in services and so on.

I don't believe we really do have this sort of tradeoff concept very often in mind. I can't recall a single instance.

The CHAIRMAN. I am intrigued that our Republican colleagues from the committee have a press conference or the Republican colleagues period or can someone help me?

Mr. ROBERTS. If the Chairman would yield, I'd be delighted to be of assistance to you, sir.

The CHAIRMAN. I'm intrigued, are the Russians doing something? Are you into something I don't know?

Mr. ROBERTS. We'd like to be in something, Mr. Chairman.

The CHAIRMAN. Are you privy to that?

Mr. LYNG. The administration had no press conference.

The CHAIRMAN. Let us in on it anyway so we don't have to wait for the evening news. Maybe you might not even make that. [Laughter.]

Mr. ROBERTS. You certainly woke me up, Mr. Chairman, and if we didn't make the evening news before with my earlier remarks, why hopefully we will now. [Laughter.]

But at any rate, as you know, there has been a group of Republican members of the House Agriculture Committee, in conjunction with an outfit called the Republican Task Force on Agriculture, who have been working on a series of initiatives that we felt we should recommend to the administration. It was under the direction of Mr. Madigan, obviously, and Bob Smith. Bill Emerson is the Republican Task Force Chairman on Trade.

We held a press conference at 10 o'clock this morning and called for five sense of Congress resolutions and a series of six initiatives more or less along the same lines that you have been urging and other members of the committee have been urging. Specifically it refers to, hopefully we will be taking advantage of the opportunity that we see now to use the Export Enhancement Program vis-a-vis the Soviet Union.

We have been stating this for some time in the subcommittee under DORFA in the Wheat Subcommittee, et cetera, et cetera.

The CHAIRMAN. Thank you very much. I just got a copy of your news release.

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Mr. ROBERTS. All right. But we're into those other initiatives, Mr. Chairman, that you have endorsed. I'm talking about GSM-102; I'm talking about the Food for Peace Program; I'm talking about a lot of other initiatives. We were trying to gently nudge or cajole or whisper sweet somethings in the ear of the administration, which they have agreed to, at least in principle.

The CHAIRMAN. Thank you very much.

Mr. Secretary, you mentioned earlier on the export enhancement and all of the other items—the tools that we use for export, and we know of the difficulties in relation to Third World countries—in answer to a question on barter, and we know the countries that have tremendous foreign debts, and we know all of those problems, and now I personally know and can attest to the fact that the bulk of those debtor nations—fortunately or unfortunately, I don't know which—must pay their debts in dollars. So they're all out trying to earn dollars; and they're getting into commodities and have been for some time, so they are competing with us.

Therefore, their prices, for one reason or another or a multiplicity of reasons, can be and have been below our prices, and we've tried to match them.

But what is the bottom line? How or where can we go, or how long can we go on doing this?

Mr. LYNG. Well, I think, Mr. Chairman, we're in the first year of activity under the 1985 farm bill and the first year we're in the marketing season for the 1986 crops. With the exception of rice, they were the first ones that were affected by the 1985 bill.

Our exports will be up this year in tonnage by perhaps 4 or 5 percent. We will see that in most of the commodities.

In our horticultural crops, most of which are nonprogram crops, our exports are up a good deal more than that.

I think in 1988 we'll see a much improved export picture. I think we will continue to be very competitive, using these tools that you've referred to, and I think if we can have some successes in the GATT that we have a chance to come out with a far better agricultural situation within the United States.

I think we're moving in the right direction, and I don't think that we really need to make any dramatic changes in that direction. The administration has made a few suggestions for modifications in the farm bill, which I made—before this committee. And there have been hearings of the subcommittees on various issues, but I think we're moving in a pretty good direction at this point.

The CHAIRMAN. Well, I don't know if you'll have many takers on reducing target prices from this committee, but your honest assessment is that if someone were just to get up and say, "The farm bill isn't working worth a darn," your honest assessment is that in its entirety, taking all of the segments, it's doing fairly well?

Mr. LYNG. That's correct, Mr. Chairman, and I would disagree vigorously with anyone that said the farm bill was just not working at all.

The CHAIRMAN. Well, that's my estimation, because it has so many segments to it, and maybe one area isn't doing as well as the other, but many times we're expected to play God, and the reasons are even beyond the Congress or beyond our country to address the issue. It's so difficult.

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It used to be that the world leaders came to this country and they met with the President and with the Secretary of State, and now the world leaders come, and they want to come to the Congress also. Then when they come to the Congress, they meet with Foreign Affairs House and Foreign Relations Senate. Now the foreign leaders who come, without exception ask to meet with the leadership in agriculture. That seems to be the forefront, and that seems to be the major topic—from India to Japan to the EC to South America to the Far Pacific to the islands in the Pacific.

I have met with more Prime Ministers, with more Ministers of Agriculture, with more Ambassadors, with more Members of Parliaments than you can imagine, sharing their concern in one area, telling us what their problems are in another area, and then suddenly telling us how our program is working to their detriment. And I try to assure them that it's not to their detriment that we have dedicated ourselves, but to the betterment of our position and hopefully theirs along the way, and that is our long-term aim.

I must recess the committee, so we can reconvene at 1:30.

Mr. LYNG. Well, thank you, Mr. Chairman. Your last statement to me is a good sign. I think it shows we're making some progress when these people do want to come and meet with you and the other agricultural leaders of the Congress. That indicates to me something that we've been aware of, that we are making some progress. We've joined the world.

The CHAIRMAN. I hope so. We'll keep our fingers crossed and say a prayer along the way.

Thank you very much, Mr. Secretary and Mr. Amstutz, and Mr. Mizel, my good friend Vinegar Bend, come back.

We'll just continue rather than recess.

The committee will be in order. The committee will continue sitting, and we have our distinguished colleague, Mr. Bruce, the gentleman from Illinois. We will hear from you at this time.

STATEMENT OF HON. TERRY L. BRUCE, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF ILLINOIS

Mr. BRUCE. Thank you, Mr. Chairman and members of the committee. It's an honor to be back before this committee. I helped this committee draft the 1985 farm bill where we planned to stabilize the basic agriculture economy and enhance the competitiveness of our exports, and I think we should reaffirm the importance of agriculture in the general economy. It's the Nation's largest industry. It's a major employer, $650 billion in economic activity, with more than 21 million Americans employed in agriculture-related occupations.

We are also the world's largest exporter of agricultural products, 2 out of every 5 acres. In addition, each additional $1 billion in increased trade makes jobs for about 30,000 more people in this country.

I speak here today about my home State, the State of Illinois, the second leading agricultural exporter in the United States in 1984 with total sales of more than $3.3 billion. That was about 8.6 percent of the total United States exports of agricultural commodities. In Illinois, we have more than 155,000 people in our State em-

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ployed full time in farm or food-related exporting. So that's why I want to spend some time with the committee today, talking about your role in the new trade bill.

We are all aware of the importance of agricultural exports to the size of the trade deficit. In fact, it's been held down by a consistently positive annual trade balance in agricultural products. Illinois, for example, ran a surplus of over $2 billion. Since 1981, we've had a decline of about $10 billion, and that also means not only a loss in agricultural sales, but a loss of some 300,000 American jobs. And so United States agriculture remains one of the most efficient industries in the world today, but we must somehow become more competitive and more market-oriented, and that's why I think that the provisions set forth in title VI of your trade bill are a positive step in that direction.

One of the areas where we can make a difference and where we can improve our ability to export is in grain quality. And, Mr. Chairman, I applaud the work that you did in the 1985 farm bill and legislation which we passed. I introduced the Optimal Grain Grading Act of 1986, and the Federal Grain Inspection Service is currently soliciting comments on the desirability of adopting an optimal grain grading system which I proposed. That review is only part of our efforts and efforts of this committee to improve grain quality by revising our standards as set forth in the Grain Quality Improvement Act of 1986, which this committee passed, which the President signed, and which became effective last November.

I am happy to see that title VI of H.R. 3 also addresses grain quality issues and the fact that no dockage or foreign material was to be recombined on exported grain, and blending of moisture greater than 4 percent of grains was prohibited.

We have a great interest in Illinois in this particular portion of the new trade bill, title VI. My congressional district alone exports something on the order of 160 million bushels of grain. So anything that we can do to make our farm exports more competitive is good for Illinois' local economy.

We've been very hard hit by a decline in export markets. We grow products on probably the best grain-growing soil in the world, and we are told—and I emphasize in my testimony that we are told—that we sell an inferior product. I don't believe that. I think that we can sell a high-quality product, and I don't believe the people who tell us that we have an inferior product.

But I've brought some samples of what happens to the grain that we grow in Illinois as it moves through the marketplace and of what we deliver.

This grain, Mr. Chairman, as you can tell, is Grade 2 yellow corn. It was grown in the State of Illinois, and it was low-temperature dried. There are very few cracked kernels, very little foreign material. In Champaign County, consistently one of the second or third largest growing counties in the United States, this corn represents corn harvested by combine and low-temperature drying. It has .1 percent broken kernels and foreign material and 18 percent stress cracks.

Then, Mr. Chairman, the University of Illinois followed grain like this to an exporter and saw what he received in Japan. And this is what we then took off the boat. We actually took a crew of

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University of Illinois students and researchers and followed grain from Champaign County, Illinois through the interior markets, all the way across in a barge to Japan. And this was acquired by the University of Illinois Corn Quality Research Team in April of 1986.

Mr. Chairman, by the time this got to Japan, we had 8.5 percent broken kernels and foreign material, and 68 percent of the kernels had stress cracks, and I think that's the problem we face in trying to increase export markets, is that we grow this in Champaign, Illinois [indicating], and we sell this in Japan [indicating]. And what we want to continue to do, Mr. Chairman, is, we think in Illinois—and I think farmers throughout the country—can and do produce clean, high-quality grain, but the standards may have been working against them in getting and expanding our markets.

In the old days, we heard complaints about less than high-quality grain, and we had corn complaints, wheat and soybean complaints, and our customers threatened to take their business elsewhere. Now that threat has become reality. They actually do it. Australia, Canada, Argentina, Brazil and Europe beat us consistently with a better price and a better product.

Farmers are already suffering from low commodity prices, and the controversy of low commodity prices and grain quality has been exploited by foreign customers who want us to lower our prices even farther.

I commend the chairman and the members of this committee who came out to a hearing we had in Champaign-Urbana last summer. We had six members of the committee.

It is my hope that in this bill that general farm groups, commodity groups, storage associations, universities, and exporters will continue to work together to improve the quality of United States grain, to improve the quality of the grain standards and inspection procedures to regain world markets.

I commend to this committee again a reading of the National Commission on Agricultural Trade and Export Policy mentioned by Mr. Yeutter in his testimony and their recommendations, that we place additional emphasis on value-added trade, that we target market growth potential in Third World countries, that we use existing tools to expand markets for United States agricultural commodities, that we maintain the Export Credit and Enhancement Programs contained in the 1985 farm bill, and finally that we enhance the role of the U.S. Department of Agriculture in pursuing a rigorous program of market development.

I want to thank you, Mr. Chairman, for your work in the area of increased export of United States products and your attention to the concern that I have of grain quality. I think that you realize, as many of us in the Congress do, that this trade bill, in whatever form it passes, will not solve all the problems of American agriculture, but I commend this committee and its members for the work that you have put in, not only in the 1985 farm bill and not only in the trade bill, but also in your ongoing concern about the quality of grain we export from this country.

Thank you, Mr. Chairman.

[The prepared statement of Mr. Bruce appears at the conclusion of the hearing.]

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The CHAIRMAN. I thank the gentleman, and we thank and commend you for the great work you did while you served with us on our committee.

Next we have our distinguished colleague, very helpful to our committee and our causes, the almost Senator from Nebraska, our colleague, Mr. Daub.

STATEMENT OF HON. HAL DAUB, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF NEBRASKA

Mr. DAUB. Mr. Chairman, how kind of you to be observant of the Nebraska political scene.

I want to say, I was most impressed by our colleague, Mr. Bruce, and the demonstrative evidence that he has brought before the committee to show what good No. 2 yellow corn looks like when it comes out of the field. I would like to tell you that it looks the same in Nebraska as it does in Illinois, and indeed the problem is that this sack with a little dust in it, with the cracks and the filings is an indication of what it looks like on the other end, and I think I know how the buyer would feel, having perhaps visited that cornfield in Illinois or that cornfield in Nebraska on a purchasing trip to the United States, and then ended up seeing what he got for the benefit of his bargain on the other end at dockside when unloading time came. I can't think of a better way, and I haven't seen a better way, of the subject that my colleague testified on being more well dramatized, and I commend him for taking the time and for the university students and all who engaged in that project. It certainly must be the best way I have seen to demonstrate a very difficult problem that we are facing.

I want to spend my few minutes with the committee talking about agriculture's stake in the trade bill. My main concern is that this trade bill has some provisions in it which could poison an already sick farm export patient. After a 40 percent drop in farm exports, the last thing we need are laws mandating retaliation that could provide the incentive to slash them.

Let me say at the outset that my chairman, Danny Rostenkowski, has done an incredible job of bringing along the consensus on this trade bill. Barring the unforeseen, we will have a comprehensive trade bill this year. In just 2 years, Chairman Rostenkowski will have overhauled our tax and trade codes, two extraordinary feats. He is providing, in my judgment, one of the best examples of leadership and certainly has to be considered the most productive Ways and Means chairman of modern times.

I was one of the first Republicans to support my chairman on tax reform, so it doesn't sit lightly with me to be one of the few members to break with him on the trade bill.

Everybody agrees that unfair trade practices are only worth about 15 percent of our trade deficit. The Federal budget deficit accounts for about 70 percent. This doesn't mean that I want to turn the other cheek on trade cheats. We need tough trade laws with focused sanctions that bite; however, we don't need trade laws that mandate General Agreement of Tariffs and Trade, illegal or unjustified retaliation, making farm sales an easy target.

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Farm exports are most vulnerable because of readily available, comparably priced substitutes. They tend to take the first hit in wars of retaliation.

We just had some retaliation yesterday. We face an extremely delicate situation on the President's action against the Japanese. Japan has failed to live up to the semiconductor agreement on computer chips. We have a domestic chip industry in trouble and have every right to expect that the Japanese quit predatory pricing wherever it occurs and that they stick to agreements that they made with us. The President has reached this decision after an assessment of all ramifications of the consequences, presumably including a judgment on the likelihood that the action might have on the $5.1 billion sold to Japan by the American farmer last year.

The important point to realize, however, is that this is the President's decision. It was not taken according to some pre-set formula or because of a trade policy running on automatic pilot. Yet this is precisely the trade policy contained in some aspects of the trade bill recently approved by the Ways and Means Committee.

Mr. Chairman, trade policy by formula is really a substitute for the hard decisions needed in international trade. It is not only unworkable, but it is dangerous. It greatly increases the risk of harming major exporters like agriculture.

The question isn't between a risk-free and risk-filled farm export market environment. We don't have a risk-free trade policy now. Look at our trouble with the Koreans who ban beef shipments completely, or the EC threatening to all but ban them for allegedly scientific reasons.

The issue is whether this bill will unacceptably increase the risks for our access to major farm export markets at a time of already depressed exports. My opinion is that it will.

Under some provisions of this bill, we won't have effective judgments on the risks and benefits of retaliation; rather some sections of this bill dictate decisions in advance without effective regard to the fallout for major exporters like the American farmer.

I've worked with a number of farm groups in developing some amendments to ensure that agriculture's interests were preserved in the face of this new formula trade policy laid out in the bill. My amendments weren't accepted.

Proponents of certain provisions claim that they carry no added risk for agricultural exports. I thought that was great and prepared to announce the adoption of my amendments. I assumed the amendments would be acceptable, because I reasoned that if there were no added risks to major exporters like agriculture from the bill, as it has been advertised, then language only effective if such risks materialize should be agreeable to all.

With their rejection, my suspicions over what this bill holds for the American farmer have grown. Consider that in the markets against which some of the provisions of this bill are aimed, farm exports make up some of the highest proportions of total U.S. exports. Agriculture has the most exposure and thus the most to lose in any trade combat.

For Japan, Korea, and Taiwan, fully 22 percent of our exports are farm-related. For the European Community, it's 13 percent. To-

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gether, out of total exports of $84 billion to these targeted countries, $14 billion or about 17 percent are for farmers.

The trade bill contains a version of the Gephardt amendment, also called the, "excessive trade deficit reduction provision," requiring sweeping across-the-board reductions against these top farm customers. This provision orders retaliation which can't be waived by this or any other President. The test for a waiver is whether such American retaliation will do—and underline the word; commit it to your memory—"substantial" harm to the national economic interest. That's our national economic interest.

Even if all the $14 billion in farm sales to the targeted countries went down the tubes, I doubt the waiver would kick in. I doubt that the loss of $14 billion from a $4.2 trillion economy could be considered substantial. The fact that it might even be a close call ought to send shivers down the backs of those interested in overseas farm markets.

The stock market dropped over 55 points, worth $66 billion, after yesterday's retaliation against Japan on computer chips. Retaliation is expensive.

In this instance, it may be justified to instill some sanity to the mindless unfair trade practices of the Japanese. However, under the modified Gephardt provisions, this and many other retaliatory actions would be set in motion without the President being able to effectively evaluate and act on the costs and benefits of them.

One of the positive provisions of this trade bill for agriculture is the continuation of negotiating authority for the GATT round. A successful GATT round is desperately needed to reduce world farm export subsidies that have crushed our prices. Even the prospects for such a round are undermined by this bill because it directs that we take GATT-illegal actions. We can't go in arguing for fairer trade rules while violating the current ones.

One of my amendments, also supported by a number of farm groups, merely said that actions taken under the modified Gephardt provisions must be consistent with our international obligations. This was rejected. That says a lot about the legality of this modified Gephardt amendment.

The proposed changes to section 201 are also potentially damaging to overseas farm sales. Section 201 provides import relief protection from exports that are fairly traded, goods that are not subsidized or dumped. This trade bill expands the use of this device. In response, trading partners are likely to commit retaliation by cutting American farm purchases or demand legally sanctioned compensation.

My amendment to that section would have struck the proposed ambiguous waiver and retain the current, more reasoned national economic interest waiver. This modest proposal, also supported by the agricultural groups, was rejected.

Section 301 is the only trade law designed to open markets. The bill requires mandatory retaliation under it. This could change section 301 from a negotiating to a retaliation statute.

Another amendment that I offered, to ensure again that agriculture isn't sacrificed during mandatory retaliation, was rejected.

Mr. Chairman, there are positive and needed provisions in this trade bill for agriculture. However, there are dangerous and rather

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bizarre provisions as well. Such provisions have the potential to do great damage to our farm exports. They must be taken out.

As our disputes with the EC, with Japan and Korea, on beef and other ag exports suggest, we already have major trade problems in selling our goods overseas.

The last thing ag needs now is a trade bill liable to result in more complications with our customers, and less farm sales. A limping farm economy does not need to be used as cannon fodder for the trade wars created by some provisions in this legislation.

There will be a lot of wheeling and dealing in the Rules Committee and the Conference Committee on the bill. Although these provisions fall outside of the jurisdiction of the Agriculture Committee, if farm state members and the farm community scream loud enough about these more bizarre provisions, there's a good chance of stripping them from the bill. We would then end up with an important, and in my opinion, very useful trade law reform.

I hope that the members of this committee will push for such changes in these provisions by letting folks know of these serious dangers that agriculture sees in them.

Mr. Chairman, if I might conclude by offering for your record a letter on Wheat Growers stationery signed by the National Association of Wheat Growers, the National Corn Growers Association, the American Farm Bureau Federation, the National Grange, the American Soybean Association, and the Farm Bureau letter dated March 12th, to all of us, signed by the group I just mentioned, as well as the Millers' National Federation, the Cattlemen's Association, the Pork Producers Council, and the Rice Millers' Association, and the National Soybean Processors Association. And again, I want to thank the subcommittee, the full committee, and you, Mr. Chairman and members of the committee, for your attention.

The CHAIRMAN. Without objection, your enclosure will be included in the record.

[The prepared statement of Mr. Daub appears at the conclusion of the hearing.]

The CHAIRMAN. Are there any questions of our two colleagues? If not, we thank you.

Mr. DAUB. Thank you.

The CHAIRMAN. The next witness is the Honorable Robert F. Smith, Member of Congress from Oregon.

STATEMENT OF HON. ROBERT F. (BOB) SMITH, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF OREGON

Mr. SMITH. Mr. Chairman, in 1964, the 88th Congress established the meat import quotas on certain meat products, especially beef, veal and mutton, as an amendment to an act dealing with the importation of wild animals. Lamb imports at that time were so low—1 to 2.5 percent of domestic production—that lamb was left out of the Conference Committee action.

At that time, it was considered to be noncompetitive. Today the noncompetitive nature of lamb imports is a different story. In 1986, lamb imports totaled 36 million pounds, or 10.9 percent of domestic production. Right now, the potential exists for massive shipments of live lambs in addition to increased imports of chilled and frozen

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lamb. New estimates for 1987 imports show a potential increase ranging to 16 percent.

In 1978, the 1964 act was amended and redesignated the Meat Import Act. The principal change involved the addition of a modified method for establishing meat import levels under the act, a countercyclical formula intended to encourage imports when domestic production was low and impose restrictions when domestic supply was high.

In keeping with the spirit of that act, and especially in keeping with the spirit of the countercyclical formula, I am asking that this committee recommend to the Ways and Means Committee considering H.R. 3, a technical amendment to be added to title VI of the trade bill which would add lamb to the coverage already provided in the Meat Import Act of 1979.

This will not stop current imports. It is not an attempt to intervene in the free enterprise system, but it can serve us in the future as a windbreak against economy-devastating imports which threaten the logic and the intent of the countercyclical formula.

Mr. Chairman, I am sure that the first question would be, would the adoption of this technical amendment reduce imports of lamb products into the United States?

I have reviewed the last 11 years of U.S. lamb and mutton production, as well as imports of lamb and mutton in the last 11 years, and the average import in the last 11 years of lamb and mutton has been 9.2 percent of domestic production. The threshold that is established in this amendment, if adopted, would be 9.7 percent of domestic production before there would be any imposition of restrictions.

Therefore, the answer to the question that I proposed is that this is not an attempt to reduce the imports currently coming into this country from foreign nations, but it is an identification of the fact that the lamb industry and the mutton industry in America has gone through drastic throes. We have diminished our domestic herds because of the price situation. We are beginning to rebuild. We do have a price improvement in lamb and mutton, and I think it's beholden upon us to make sure that our own industry participates in the expansion of herds if that is to occur within the United States, and not allow imports to demolish what is beginning to be a rebuilding of herds of sheep in America.

So I propose this to you only as a technical amendment. You will notice that there are very few words changed to the Meat Import Act. I think it will qualify as a technical amendment, and I urge you to adopt it. I would be happy to answer any questions.

[The prepared statement of Mr. Smith appears at the conclusion of the hearing.]

The CHAIRMAN. I thank the gentleman.

Are there any questions?

The gentleman from West Virginia.

Mr. STAGGERS. Mr. Smith, in your statement, you talk about the potential problems for prices for the domestic price. I have heard up to 25 cents per pound. Is that a fair estimate?

Mr. SMITH. We understand that it's between 15 and 20 cents a pound.

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Mr. STAGGERS. Also I have heard that New Zealand subsidizes the production and importation of lamb at about a rate of 20 cents on the pound. Is that your understanding also?

Mr. SMITH. My current discussion with the New Zealand people is that they have dropped their support and subsidy of mutton and lamb. I understand from the sheep producers that they would like to go to New Zealand and investigate that question. It has only occurred—the New Zealand people tell me it's only occurred within the last year. So I cannot in prudence tell you that they do subsidize their lamb production and sheep production, because I don't know. They tell me they don't. Some of our domestic sheep producers question that.

Mr. STAGGERS. Of course, subsidies can take many different——

Mr. SMITH. That's correct. That's correct.

Mr. STAGGERS. Sometimes those are hidden subsidies that are hard to find and root out.

I understand also that the level that we are importing this year is twice the level of 1984, and it's projected that in 1987 it will reach 16 percent of the U.S. lamb production.

Mr. SMITH. In 1984, we imported 19 million pounds. In 1986, we imported 36 million pounds. Very close to a 50 percent increase.

Very close to a 100 percent increase.

You are correct. My numbers indicate that in 1987, it could go to 16 percent of our domestic production.

Mr. STAGGERS. I would like to agree with your statement that it's not an attempt to reduce imports, but just to basically stabilize the production here in the United States. In talking to some of the Australian officials, they have talked about some sort of effort on our part, in combination with other countries, to increase the market here in the United States.

There is a potential for no adverse impact on Australia that may or may not be subsidizing, if in fact we go with your amendment, and we can increase our market here in the United States.

Mr. SMITH. That's exactly correct. As the countercyclical formula indicates, as it's worked with the red meat industry, as we expand our domestic production, we also expand our opportunity for imports. So if we want to rebuild and some—and I have listened to Australians and New Zealanders say, well, one of the problems that you have is that you don't have lamb and mutton in your marketplaces, and that's because you don't produce sufficient numbers. And we have never been averse, that I know of in this country, to import live ewes for the enhancement of our production, but we are putting a threshold on the importation of meat products, lamb products, and that will not diminish the opportunity for importation.

In fact, as we build our herds, it will increase that opportunity.

Mr. STAGGERS. I support your efforts to at least stabilize and protect and make it viable that we have a domestic market and domestic production, and I think that's what you're trying to address with your amendment.

Mr. SMITH. You're correct. I don't view this as protectionism at all, because we are not reducing the amount of importation in this country. What we are doing is visiting this issue before it becomes an issue that may invite those to say, well, we've got to protect our

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industry. We are placing it in the same context as we did meat products coming into this country, which I think everybody agrees has worked rather well. We have never reached the trigger of meat importation in this country, and what I believe this amendment would do would send a message to those who would see this market as a very viable one, which it is, by the way, if New Zealand lambs are worth $9 and we're getting $80, it's a market that everybody would like to have. But I believe that the meat import issue has worked, and I think this would decrease the incentive for foreign governments to look at this market and say we want a part or all of that, we're going to bring whatever is necessary into that country to reach a better market.

So rather than protectionism, I think this is thinking ahead to say we don't want a situation in which we're going to be gobbled up by a foreign nation and become dependend upon them for lamb and mutton products.

Mr. STAGGERS. Well, I commend the gentleman for his efforts. I think my time is up.

Thank you, Mr. Chairman.

The CHAIRMAN. I thank the gentleman. Thank you.

Next we have our distinguished colleague from Arkansas, who was a very active member and did a tremendous job on the National Commission on Agricultural Trade and Policy, which has concluded its work and has given us the benefit of their expertise and study in a report just recently published. We are very happy to welcome our colleague, Mr. Beryl Anthony.

STATEMENT OF HON. BERYL ANTHONY, JR., A REPRESENTATIVE IN CONGRESS FROM THE STATE OF ARKANSAS, REPRESENTING THE NATIONAL COMMISSION ON AGRICULTURAL TRADE AND EXPORT POLICY

Mr. ANTHONY. Thank you, Mr. Chairman. I would like to submit my entire testimony for the record, and I would like to summarize parts of it.

The CHAIRMAN. Without objection, your full statement will appear in the record.

Mr. ANTHONY. Mr. Chairman, it is an honor to appear before you today in my capacity as a past member of the National Commission on Agricultural Trade and Export Policy.

During its 18-month tenure, the Commission worked hard to provide this committee with a comprehensive program for reform of our current agricultural trade laws and practices towards the achievement of expanded U.S. farm exports and a more equitable international trading environment.

I am here today, as others have been before you in the past, to attempt to ensure that the Commission's efforts do not go for naught. As a member of the Ways and Means Committee, I can assure you that the commission's recommendations were a powerful element in the trade deliberation of that committee, which were only recently concluded.

I urge your committee now to similarly weigh the Commission's work as you proceed toward developing legislation to be included in this year's omnibus trade package.

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I will limit my remarks today to two elements of the overall agricultural trade situation, which I am confident can be actionable this year: market development and improved internal government coordination of agricultural trade policy. They do not require making new commitments of resources. They are, nevertheless, the bedrock of everything else we do this year to improve our nation's ability to compete in world markets for agricultural commodities and products.

The experience of the Commission indicates that our competitors are much more active in promoting new markets for the agricultural commodities and products than we have been. If we are serious about improving our trade position in world markets, we cannot afford to let our own market development activities lapse. Indeed, if possible, they must be expanded.

The same is true for an improved coordination of agricultural trade policy within our Government. Agriculture seldom receives the attention it deserves in the highest councils of Government.

Better market development policy: The U.S. Government must at a minimum maintain, but preferably expand, current programs designed to build-in future worldwide demands for U.S. agricultural commodities and products. The Commission has recommended future funding of such programs be set at levels no less than that contained in the 1985 farm bill.

It is my belief that they should be funded at an even higher level.

I do have a mistake on page 3, and would ask that FAA be corrected to read FAS, Mr. Chairman.

FAS has seen a reduction in staff years of 10 percent since 1981. This, despite substantial increases in its mandate and responsibilities. These staff years should be restored.

In addition, market development activities overall have suffered as a result of a failure to keep pace with the funding needs of such programs.

Again, these programs need to be brought up to par with the expectations Congress has placed on them. The Commission has a host of recommendations in regard to the better management and support of agricultural market development which it can lay before the committee, should the committee deem it necessary.

Mr. Chairman, as far as the funding level for FAS is concerned, I think it would be proper for this committee to ask for an increase of at least $10 million, and up to at least $20 million, so that we can catch up, so that we can do this market development.

Better coordination of agricultural trade policy: if the United States is to maintain a leadership role in agriculture trade, it is concerned that progress in this area will inevitably be eroded in absence of reform of our own internal government decisionmaking process affecting agricultural trade.

Recent history is replete with examples of U.S. policy that has emerged from the interagency process in stark conflict with U.S. agricultural interest. Agriculture has not been accorded sufficient weight in the highest councils of government. To rectify this, the Commission has proposed sweeping changes in the manner in which current trade policy is developed, according the Secretary of Agriculture greater leadership in matters of trade. This reorganiza-

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tion proposal has received substantial attention. It has been criticized. However, the Commission feels strongly that there must be some effort to reform the current process.

The system must also be made more accountable to Congress, and to the agricultural community in matters of trade policy. To achieve this, the Commission recommends that USDA be required to annually prepare long-term agricultural trade strategy reports for review by the Congress. Agricultural trade policy, as it currently emerges from the interagency process, is shortsighted and ad hoc. Greater long-term planning capabilities must be built into the system.

Congress and the agricultural community need to know that the long-term objectives of U.S. trade policies are; what programs and resources are to be used; what emphasis will be placed; where markets will be sought—and USDA should perform this service.

The Commission believes that if USDA reported more, it would have to explain less.

This is an abbreviated version of a more comprehensive testimony, Mr. Chairman.

The Commission also has several very complex suggestions that we could lay before the committee, either in an open session or in a private session. As you deliberate the trade package, we would love to work with you to strengthen the agricultural trade section.

I thank you for the opportunity to testify today.

[The prepared statement of Mr. Anthony appears at the conclusion of the hearing.]

The CHAIRMAN. Thank you very much, and we appreciate very much your offer of cooperation. We may be taking advantage of it.

Any questions of our colleague?

Mr. SMITH. Mr. Chairman.

The CHAIRMAN. Mr. Smith.

Mr. SMITH. I just want to commend my colleague for that statement because I think it's right on the money. I know he serves on the Ways and Means Committee, and we deal on these turf issues a whole lot. But I agree that, if we don't fund FAS we're going to lose 16 to 18 market positions in the world, and that's crazy at this time.

I hope the gentleman included in that full funding for Export Enhancement Programs. And I personally, along with him, would like to see that enhanced. I think we ought to spend more than $1½ billion for export enhancement. Restoration of the GSM-102 and 103 programs for full funding would mean that we could continue to find ways to loan money to Third World countries to buy our products. And by the way, the repayment has been excellent; there has been little loss, so that's off budget. That doesn't cost the deficit any money.

And I just want to associate myself with the gentleman, congratulate him for his statement, and I support him totally in that effort.

Mr. ANTHONY. Mr. Smith, all of the suggestions that you made in your statement are contained in more detail in the Commission's report, and in the detailed suggestions that we could lay before the committee, if the committee deems necessary to do this.

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The truth of the matter is that we are in a trade war, but we are in a losing trade war. It's time that we short up our arsenal and we can do it, I think, within the terms of budget constraints. We can reshift some of our priorities, and what will happen is that we will see much more of this money coming back into the Treasury through increased agricultural trade. We will see renewed growth in our rural farm economies that are so depressed at the moment.

So, if we're talking about an investment in the future of this country, I do not think that we can put a trade bill together if we do not have a strong agricultural trade component.

I got my training on this committee, Mr. Smith, before I went to the Ways and Means Committee. There were four of us who helped put together agricultural trade packages on the Ways and Means Committee in the recently concluded trade legislation. We all got our training from this committee. So, with that insight, we were trying to educate some of our urban Brethren; and that is the reason I wanted to come before this committee, though, to say, don't let 18-months of hard work go down the drain—have another study put on the top shelf just to gather some dust. We have a legislative vehicle that's being put together. I think it is necessary for us to take these recommendations, the necessary recommendations, the workable recommendations and work them into the law.

Mr. SMITH. Thank you.

The CHAIRMAN. Thank you very much, we appreciate your appearance.

Next we have Mr. Allan Mendelowitz and his associates.

STATEMENT OF ALLAN I. MENDELOWITZ, SENIOR ASSOCIATE DIRECTOR, NATIONAL SECURITY AND INTERNATIONAL AFFAIRS DIVISION, U.S. GENERAL ACCOUNTING OFFICE, ACCOMPANIED BY PHILLIP J. THOMAS, GROUP DIRECTOR, AGRICULTURAL TRADE

Mr. MENDELOWITZ. Mr. Chairman, with your permission I'd like to submit my full statement for the record and read an abbreviated statement.

The CHAIRMAN. Without objection your full statement will appear in the record, and then you may proceed accordingly.

Mr. MENDELOWITZ. Thank you. I'd also like to introduce Mr. Phil Thomas who is accompanying me today, who is our group director responsible for our work on agricultural trade issues.

The CHAIRMAN. We welcome you, Mr. Thomas.

Mr. THOMAS. Thank you.

The CHAIRMAN. You may proceed.

Mr. MENDELOWITZ. Thank you.

Mr. Chairman and members of the committee, we are pleased to be here today to discuss with you our views on title VI of H.R. 3, the agricultural trade title of the Trade and International Economic Policy Reform Act of 1987.

The proposed title VI would significantly restructure and reorient the U.S. Department of Agriculture and its management of agricultural trade. It is derived principally from the final report of the National Commission on Agricultural Trade and Export Policy which concluded in July, 1986 that agriculture trade policy and

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programs should be given a high priority, both within and outside the Department of Agriculture, and that the Department should be reorganized to reflect that priority.

We agree with the general thrust of the Commission's conclusions, but the recommended reorganization embodied in H.R. 3, Title VI may be more extensive than necessary to achieve the desired objectives.

The reorganization proposed in this legislation, at least in the short term, could create significant confusion and detract from, rather than enhance, U.S. agricultural trade competitiveness.

We believe that the objective of the Commission's final conclusions can be met to a series of adjustments within the existing organizational framework.

For example, it's unclear whether designation of the Department of Agriculture as lead agency within the executive branch for agriculture trade and trade policy will cause higher priority to be given to these areas.

The Secretary is currently a member of the cabinet-level Economic Policy Council and the Trade Negotiating Committee. The Under Secretary of Agriculture for International Affairs and Commodity Programs is a member of the Trade Policy Review Group, and a senior departmental official represents agriculture on the Trade Policy Staff Committee.

It is also important to note that the Secretary and Under Secretary played important roles in recent agricultural trade bilateral negotiations with the European Community and other major agricultural competitors.

And furthermore, during the September, 1986 GATT ministerial meeting, which launched the Uruguay Round of multilateral trade negotiations, the Secretary of Agriculture conducted the negotiations on agricultural trade and agricultural trade interests received a high priority.

Therefore, we believe that designating the Department of Agriculture as lead agency for agricultural trade and trade policy matters is unnecessary.

Furthermore, there are situations where it would be inappropriate for the Department to be the lead agency when other domestic and foreign policy considerations might have equal or greater priority, and when agricultural interests could benefit from concessions from other sectors.

In addition, we believe that the proposed transfer of the International Economic Division of the Economic Research Service and the World Outlook Board of the Department of Agriculture to the Department's Foreign Agricultural Service would not be desirable.

Transferring the international economic analysis functions of the ERS would seriously affect its ability, and that of the Assistant Secretary of Agriculture for Economics to conduct integrated, long-term, and independent economic research on international agricultural. It would also further undermine ERS' capability to make global commodity estimates and forecasts.

The programmatic orientation of FAS could also compromise the independence of ERS' international analyses and could result in self-serving assessments of international agricultural issues, which would contradict the basic rationale for the transfer.

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The proposed replacement of the current Under Secretary of Agriculture for International Affairs and Commodity Programs with two Under Secretaries, one for trade and international affairs, and the other for commodity programs, severes a critical natural link between international and domestic programs that is served by having one Under Secretary responsible for such interrelated areas.

Events of recent years attest to the importance of the relationship between domestic and international agricultural issues, and the need to have a single authority responsible for both within the Department. Separation of responsibility for trade and domestic commodity programs could create new policy and program coordination problems.

We believe that establishing an Office of Agricultural Trade Policy Planning and Evaluation, responsible for developing effective agricultural trade strategies and reporting annually to the Congress could serve a useful purpose, and it should be assisted by the international staff of ERS and its evaluation function should include periodically assessing all U.S. agricultural export programs; and the Department should ensure the evaluations are objective and independent.

We also support the proposed declaration of policy concerning food aid and market development, and the establishment of an office of Food Aid Policy within Agriculture. Food aid and agricultural export programs need to be coordinated more effectively.

In title VI, the proposed use of CCC commodities by cooperators for projects designed to expand markets for the U.S. agricultural commodities raises some questions. There are limitations to the use of these commodities, and it is unclear how many cooperators could participate in such projects.

How cooperators would qualify to participate, and how commodities would be allocated among cooperators are open issues.

Furthermore, if the definition of commodities is expanded to include generic certificates, then additional questions must be raised concerning the use of the certificates by cooperators for market development activities.

Under the current Targeted Export Assistance Program, generic certificate holders are selling the certificates for greater than face value, and there are some preliminary indications that not all premiums are being used for approved market development activities. In our recent review of generic certificates we found that certificates were in fact being sold for premiums of 10 to 15 percent.

Title VI of H.R. 3 would also amend section 1127(b) of the Food Security Act of 1985 to read that,

> The Secretary of Agriculture shall give priority to all interested foreign purchasers who have traditionally purchased U.S. agricultural commodities or continue or begin to purchase such commodities in quantities equal to or greater than those of a previous period.

During our review of the Export Enhancement Program, we found that the Secretary of Agriculture used discretion in targeting other countries. Foreign purchasers who had traditionally purchased U.S. agricultural commodities, such as Japan and Korea in the case of wheat, were not made eligible under the program. It appears that these countries have continued to purchase wheat and

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other agricultural commodities from the United States despite higher U.S. prices in part because of preference for U.S. products, but also, because of U.S. political leverage. The huge trade imbalances between each of these countries and the United States would have made it difficult for them to ask the United States to subsidize its agricultural exports to them.

Consequently, not targeting traditional customers, such as Japan and Korea, to the extent that they continued to make commercial purchases of wheat from the United States without the EEP program was appropriate. To have targeted these countries instead of countries such as Morocco and Algeria, which without the EEP clearly would have bought wheat from the European Community, would have been an inefficient and costly use of the bonus commodities available under the program.

To have targeted Japan and Korea as well as Morocco and Algeria might well have resulted in all bonus commodities available under the program being used up at an early date.

In this regard, title VI does not change the total value of commodities to be used in implementing the EEP. As amended by the Food Security Act of 1985, this amount was set at not less than $1 billion nor more than $1.5 billion. Even if the Department of Agriculture uses the market value method rather than the book value method, it appears that the $1.5 billion will be used if the EEP continues at its current pace.

We believe that Congress needs to address the issue of the adequacy of the amount of the bonus commodities available under the program, and it does not do so in title VI.

Title VI notes that it is the sense of Congress that the Secretary of Agriculture should expedite the implementation of provisions of the Food Security Act of 1985 relating to the barter of agricultural commodities.

During our recently completed review of alternative grade trading practices, we found problems with the implementation of the barter provisions which need to be addressed.

Complications regarding division of program authority, agency coordination, and reimbursement between Federal agencies involved in potential barter transactions have contributed to the lack of action. Additionally, there have been problems in identifying the appropriate combination of eligible countries in acceptable commodities.

Agricultural officials reported that they have met on several occasions with representatives of the Department of Energy, and the General Service Administration, but did not reach agreement on a means for carrying out the provisions of the law.

Mr. Chairman, although the reductions in loan rates and the new export programs of the Food Security Act of 1985 were designed to increase U.S. agricultural competitiveness, more can be done. Improved management of export promotion and market development activities within the existing structure of FAS would be desirable. More emphasis on market development, better coordination of traditional and newly established export programs and activities, better program evaluation to ensure that programs and funds are well directed, greater flexibility in the use of agricultural attaches, more emphasis on new markets and value-added commod-

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ities, an expanded effort to respond to product quality problems, and the establishment of a broad-based publicly accessible Export Market Development Advisory Committee appear to be positive responses to increased foreign competition.

In addition, it may be necessary to increase funding for trade shows and exhibitions, general management support of export programs, and additional personnel.

It is clear that the many new export programs of the 1985 Food Security Act have challenged the adequacy of existing FAS resources.

Mr. Chairman, this concludes my summary statement, and we'll be happy to try to answer any questions you or the members of the committee may have.

[The prepared statement of Mr. Mendelowitz appears at the conclusion of the hearing.]

Mr. PANETTA [acting chairman]. Thank you very much for your testimony.

Let me, to summarize, your basic point is that, in looking at the proposal that some reorganization needs to take place, but not as extensively as proposed here?

Mr. MENDELOWITZ. Correct.

Mr. PANETTA. And where would you target the reorganization?

Mr. MENDELOWITZ. Well, we think, for example, that there's inadequate communication and exchange of information between the international work of ERS and FAS. Rather than lifting the international function out of ERS and putting it in FAS, I think it would be desirable to establish a mechanism for better coordination.

I think with appropriate direction, with respect to that coordination and cooperation, there's no reason why it shouldn't take place.

Mr. PANETTA. Mr. Mendelowitz, did your section deal with the GAO study that was done regarding pesticides and insecticides on imported goods coming across the border?

Mr. MENDELOWITZ. No, sir, that was done by one of my colleagues. But if you have any questions, we'd be happy to try to answer them if we can. If not we can submit answers for the record.

Mr. PANETTA. No, I think I'll probably wait and talk to the people who did the actual study.

Mr. Stenholm.

Mr. STENHOLM. On page 7 you make the statement, "There are some preliminary indications that not all the premiums are being used for approved market development activities," premiums being those generic certificate holders that are selling. I'm familiar with that in the general area of certificates, but are you prepared to go any further about some of the preliminary indications and what's occurring in the targeted export programs area, and is it the same that's occurring in generic certificates in the farm program?

Mr. MENDELOWITZ. Our work in this area is very preliminary. The indications that we've referred to are examples of proceeds from the sale of certificates being used to buy equipment for and staff domestic offices, when the funds under the program should be directed towards specific market development program activities overseas.

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Mr. STENHOLM. I don't think I have another question at this time, Mr. Chairman.

Mr. PANETTA. Thank you.

Mr. Smith.

Mr. SMITH. Thank you, Mr. Chairman.

I'm very interested in your comment regarding export enhancement. I personally feel we only have two weapons to make us competitive in the world markets. One is the marketing loan, and the other is export enhancement, which you've alluded to.

I'm interested in your statement because I agree, I think, with you that you're suggesting that even if we go ahead with selective targeting of export enhancement we're soon to run out of money for export enhancement. I'm calling for $2½ billion to be appropriated for export enhancement.

I'm going to ask you whether you think that's sufficient, less, or more that may be necessary to keep up our pressure and our opportunity to sell products in competition on foreign markets through export enhancement?

Mr. MENDELOWITZ. We view continued and adequate funding for the Export Enhancement Program as essential to our credibility in the current negotiations.

Several years back we undertook a major subsidy of a wheat flour sale to Egypt in which we took a large portion of the Egyptian wheat flour market away from France. We held the market as long as the subsidy was available, and we lost it as soon as the subsidy ended.

I think that kind of on again/off again approach to applying pressure on the Common Market and its Common Agricultural Policy is not the way to go about trying to influence their position in negotiations. And therefore, we believe that sustained and adequate resources should be available. Because we think the current funding ceiling of, one and one-half billion dollars worth CCC commodities available for the EEP currently will be fully used up, it makes sense in this proposed legislation to explicitly expand the available CCC commodities available for the program.

If you add another billion, I think that will get them pretty far down the road. When they start using that up, we can assess where we are in negotiations. If we've reached a successful conclusion in the negotiations and we don't need the EEP anymore, then you don't need to appropriate more.

Mr. SMITH. Sure.

Mr. MENDELOWITZ. If the negotiations are still ongoing, if the Common Market is digging in their heels, we should appropriate whatever is needed.

Mr. SMITH. Thank you. I appreciate that comment, because I agree that we ought to be consistent, and we ought to keep the pressure on. And the only way to do that is through export enhancement. I appreciate that point.

I think if we did go to market costs versus acquisition costs, it would spread the available money out about 30 percent, if my numbers are correct. I think that's essential to do in the beginning because it's not a budget impact issue.

Mr. MENDELOWITZ. Right.

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Mr. SMITH. So, that's the initial step. The next step you suggest is a $1 billion. And if that's sufficient or not sufficient, we can tell down the road. We ought to keep up the pressure and keep up the funding of EEP at this point.

Mr. MENDELOWITZ. We would agree with that.

Mr. SMITH. Thank you very much.

Thank you, Mr. Chairman.

Mr. PANETTA. Mr. Volkmer.

Mr. VOLKMER. Yes. I also, Mr. Mendelowitz, notice you comment on the barter program of USDA that is described in the 1985 farm bill and the pilot program. And it appears—and I asked the Secretary about that. The answers I've always got from USDA, it's so very complex and everything.

Would you say that bartering is so complex that it can't be done?

Mr. MENDELOWITZ. I would say that barter is a fairly inefficient way to go about conducting our international trade. The circumstances under which it is generally beneficial are probably fairly limited.

I think what makes for one of the difficulties in implementing the barter provisions is coming up with the specific circumstances when it makes sense.

There are also some administrative problems, which we've identified. I think Mr. Thomas would be delighted to add a few comments.

Mr. VOLKMER. Yes.

Mr. THOMAS. I had an opportunity to attend the Regional Agricultural Attache and Counselor Conference in Brussels in December, and one of the issues that emerged somewhat spontaneously from the discussion that went on for 3 days was barter. U.S. agricultural attaches from Africa, from the Middle East, from Western Europe and Eastern Europe all seem to be raising questions about the growing number of inquiries about barter and what to do with them? Mr. Lyng and Mr. Yeutter were present at the conference. There was a sense that there was a need to provide FAS guidance on how to address barter inquiries, and to get more instructions to the attaches, and give them some sense of how to field inquiries. That did not appear to be happening as of that date. Perhaps, some efforts along those lines would be helpful.

Mr. VOLKMER. In other words, you got some feeling anyway that the people out in these several countries, wherever they may be, were getting inquiries.

Mr. THOMAS. That's correct. And the attaches did not really know how to handle it.

Mr. VOLKMER. They didn't have any answers.

Mr. THOMAS. That's right. And at that same conference, Mr. Lyng said, he restated many of the pessimistic statements he made today about barter concerning using it as a vehicle for increasing trade.

Mr. Yeutter I think had a very important comment that is quite different. He said that in a world governed by all types of trading problems it may be good to use barter as a transitional trade mechanism. If you can't trade for cash, and it's a case of not trading at all or trading through barter, why not try barter.

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Mr. VOLKMER. Well, that's been, I think, the position of a good many people of this committee when we put the language in the bill with the understanding it is basically another tool for USDA to use. And I'll admit in, you know, rare instances and restricted instances it's going to come about; cash is always the easiest way to handle transactions today. But I have yet to be persuaded that we couldn't barter with some countries, surely.

Mr. THOMAS. The existing problem, in terms of the administrative complications with GSA, the Department of Energy, and the Department of Agriculture is, really having a focal point. There appears to be a need to identify someone who can cut through the administrative red tape and set forward some guidelines for proceeding. If that is accomplished, things might go a little better. Certainly at this point they don't seem to be going that well at all.

Mr. VOLKMER. And perhaps, also, as in my letters to USDA from the persons that are supposedly working on it, it appears to me that their attitude is, look, it's just too much trouble for what it's worth, that type of attitude. It's too complex. Like I asked in the original question, is it so complex, et cetera, that it can't be done? That seems to be the attitude that I get, anyway, from USDA. If it can't be done, it's still too much trouble to do it.

I don't know, Mr. Chairman, whether we can change that attitude in USDA or not, but I think we ought to try.

Thank you very much.

Mr. THOMAS. You're welcome.

Mr. STENHOLM [acting chairman]. Mr. Holloway.

Mr. HOLLOWAY. No questions.

Mr. STENHOLM. Mr. Harris.

Mr. HARRIS. No questions.

Mr. STENHOLM. No further questions by the Chairman. Thank you very much for your testimony and your analysis, and your help to this committee in this endeavor, we appreciate it.

We have a vote now, so we will recess for about 10 minutes and be prepared to take the next witness at that time.

[Recess taken.]

Mr. STENHOLM. We will now reconvene the hearing.

We will ask Mr. Malcolm Harding, president of Central Bank for Cooperatives, accompanied by Mr. Wayne Anderson, if you would assume your chair at the witness table.

You may proceed when you are ready.

STATEMENT OF W. MALCOLM HARDING, PRESIDENT, CENTRAL BANK FOR COOPERATIVES, ACCOMPANIED BY WAYNE ANDERSON, SENIOR VICE PRESIDENT AND DIVISION MANAGER, INTERNATIONAL BANKING DIVISION

Mr. HARDING. Thank you, Mr. Chairman.

My name is Malcolm Harding. I am president of the Central Bank for Cooperatives in Denver, Colorado. The Central Bank is part of the Farm Credit system, and is owned by the 12 district banks for cooperatives.

Wayne and I appreciate the opportunity to testify at this hearing today. With me is Wayne Anderson, senior vice president of the

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Central Bank for Cooperatives, and manager of our International Banking Division.

In the interest of time and allowing for your questions, Mr. Chairman, I would like to summarize my remarks, and would respectfully request that my more formal statement be included as part of the hearing record.

Mr. STENHOLM. Without objection.

Mr. HARDING. I am pleased that this committee is showing leadership in the current congressional discussions concerning trade legislation. Since exports are so important to American agriculture, and because agriculture is vulnerable to protectionist trade policies, I believe it's important that agricultural issues be considered as trade legislation is developed.

The Central Bank encourages the committee to consider including H.R. 1298, the Agricultural Trade Financing Act of 1987, as part of major trade legislation this year.

H.R. 1298, which was introduced on February 26 by Congressman Ed Jones of Tennessee would remove the sunset limitation on the international banking authorities provided to the banks for cooperatives by Congress in 1980. The district banks place the responsibility for developing international banking services with the Central Bank for Cooperatives.

Unless the sunset limitation is removed, these authorities will expire on September 30, 1990, and the banks for cooperatives will no longer be able to finance agricultural exports.

Following adoption of the legislation in December of 1980, the Central Bank assembled a quality international banking staff and made its first loan to a foreign purchaser of U.S. farm products in 1982.

Central Bank has financed over $5 billion in farm exports since making its first loan in 1982. In 1986 alone, we financed $1.3 billion in farm exports.

The bank has successfully financed sales to over 25 nations, and has established 125 foreign correspondent banking relationships in 48 countries. All of this has been accomplished without cost to the Government.

I am here today to seek support for H.R. 1298, which would simply permit the Central Bank to continue its important work for the benefit of American farmers. Even though the sunset date is 3 years away, it is already affecting the bank's ability to finance ag exports. It causes concern among correspondent banks because some of our loans are already extending into the 1990's, and we are hampered in long-range planning and staff development.

I firmly believe the banks for cooperatives through the Central Bank have proven themselves as a reliable, conscientious, international lender. We have not had a loss on an international loan, and we continue to carefully manage our lending risks.

I believe the international lending authorities granted to the banks for cooperatives by Congress have proven to be a success story, of which this committee can be proud.

It's time to remove the sunset limitation and make the banks for cooperatives international banking function a permanent resource to support exports for the benefit of the American farmer.

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Thank you, Mr. Chairman, for the opportunity to present this brief summary, and we would be pleased to respond to any questions.

[The prepared statement of Mr. Harding appears at the conclusion of the hearing.]

Mr. STENHOLM. Mr. Anderson, do you have a statement?

Mr. ANDERSON. No, sir, Mr. Chairman.

Mr. STENHOLM. The $5 billion that you have loaned since the inception of your program in 1982, where did you get your money?

Mr. HARDING. Well, we joined the other Farm Credit banks in issuing consolidated Farm Credit securities in the capital market.

Mr. STENHOLM. These are funded like all other Farm Credit securities?

Mr. HARDING. Exactly the same.

Mr. STENHOLM. With the concern that we now have in the overall area of Farm Credit, are there any of these loans in the foreign area that are classified today?

Mr. HARDING. No, sir. But let me refer that to Mr. Anderson for comment.

Mr. ANDERSON. No, sir. To date we have not had any losses in the international, nor do we have any highly adverse criticized loans.

Mr. STENHOLM. None.

Mr. ANDERSON. None.

Mr. STENHOLM. To date.

Mr. ANDERSON. Our portfolio is roughly 99 percent of acceptable, with some considered problem, not because of collectability from the borrower, but because of some of the adverse country conditions that we are facing in certain countries around the world.

Mr. STENHOLM. You answered one of the questions which I was going to ask. If it expires in 1990, why deal with it in 1987. What's happening?

Mr. HARDING. Well, banking is a very interesting and kind of personal business, where relationships take time to establish, and so banks do not like to be disrupted in their relationships, and there is concern there that—well, is the Central Bank for Cooperatives and the bank for cooperatives going to be in the international business, or are they not? Is Congress going to permit them to continue?

It's mostly one of concern of continuing business relationships, as far as the commercial banks are concerned. The staffing issue is a very critical issue. As you know, this is a high risk business, and one that people really make the difference, and to maintain a quality staff you have to be able to offer these people continuing employment opportunities, career development opportunities. If they look and see your business may well be discontinued 3 years hence, it is very difficult to attract the kinds of people you really want.

Mr. STENHOLM. I believe you have made your point very clear here today. Thank you both very much for testifying and bringing forth this very important aspect of our export trade scenario. It is a pleasure to hear a success story in any kind of lending program, whether it be domestic or foreign.

Mr. HARDING. Thank you, sir.

Mr. STENHOLM. I hope you continue that record.

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Mr. HARDING. Thank you, Mr. Chairman.

Mr. STENHOLM. Thank you.

Next we will call panel No. 8. The Honorable Orville Freeman, Agriculture Council of America. Mr. Carl Schwensen, National Association of Wheat Growers. Mr. LaVern A. Freeh, Land O'Lakes, Minneapolis, MN. Ms. Peggy Sheehan, National Cooperative Business Association, Washington, DC.

I believe Mr. Claiborne Crain is substituting for Mr. Freeman.

Mr. CRAIN. That's right. I apologize for Mr. Freeman. I'm sure you have the same type of thing where we end up scheduling for two or three types of things at the same time, and we apologize, but it's just been unavoidable for him to be able to be here.

Mr. STENHOLM. We understand we have a very adequate substitute, Mr. Crain. When you are ready you can proceed.

STATEMENT OF ORVILLE L. FREEMAN, PRESIDENT AND CHIEF EXECUTIVE OFFICER, AGRICULTURE COUNCIL OF AMERICA, PRESENTED BY CLAIBORNE CRAIN

Mr. CRAIN. Thank you very much, Mr. Stenholm. I am very pleased to be here representing Orville Freeman and the Agriculture Council of America.

The recovery of U.S. agricultural exports and the consequent recovery of rural America is the primary thrust of the Agricultural Council. We are a unique umbrella organization that cuts across the entire spectrum of the U.S. agricultural industry, from producers and their suppliers, into transportation and processing, and on to exporters and those who work abroad on economic development and commercial market-building.

I would like for the record to show the members and the board of directors of the Agriculture Council of America and the trustees of the Agriculture Council of America Education Foundation. You will note that these boards include five former Secretaries of Agriculture, the elected leaders of general farm organizations, top executives of corporations in the private sector, both cooperatives and proprietary firms, and a wide cross-section of leadership from the commodity groups and private voluntary organizations.

To put this testimony into perspective, I would also like to submit for the record a policy paper outlining the agricultural export initiative of the Agriculture Council of America.

By way of summary, the export program set forth in this document calls for more vigorous use of the existing statutory tools and appropriations, rather than new legislative initiatives.

We feel like the tools are already in place to do many of these things, but some of the legislation before the committee today could be instrumental in speeding us down the road.

The programs developed and carried forward in the late 1950's and 1960's laid the foundation for the prosperity of the 1970's and early 1980's. It is useful to remember that those were times, like today, of crop surpluses and under-use of American agricultural capacity.

Those programs combined humanitarian food relief, economic development, and commercial market-building that were sometimes called an action triangle.

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In the 1970's, especially in the so-called less-developed countries, some of which were moving toward a level of newly industrialized countries, commercial demand worldwide climbed rapidly, and the surpluses disappeared. Unfortunately, that action triangle lapsed in the 1970's, and we entered the 1980s with surpluses much like those Mr. Freeman, who is president of the Agriculture Council, experienced when he took the office of Secretary of Agriculture in 1961.

The primary thrust of the ACA program is to carry forward, in the last half of the decade of the 1980's, the multiple programs of humanitarian food relief, economic development, and commercial market-building that made possible the increase in U.S. agricultural exports in the 1970's.

The leadership of the council met last month with Secretary Lyng and Administrator McPherson of the Agency for International Development to review most of the same programs addressed in our paper. It was a very encouraging meeting—one of several recent signals we have had from the administration of movement toward a more aggressive, creative use of the tools that they have, especially surplus commodities, to advance our agricultural exports.

In some areas, particularly the timely programming of overseas projects, we found that part of the problem was one of communication between different agencies of our government. These two key executives knew a particular matter was a problem, shared our view and general philosophy, and felt that they could resolve these logjams by personal involvement. We hope that is correct.

To more specifically address some of the issues before the committee today, in our opinion, an amendment to be offered tomorrow, we understand, by Mr. Panetta, contained in his bill, H.R. 1809, fully and precisely pursues the objectives of the Agriculture Council and addresses the particular problems we have discussed with the administration. It adopts the only course proven to be a success, the country-by-country market-building through multiple-purpose plans. It would set reasonable deadlines and goals, loosen up some of the current food aid strictures, and direct full attention to the use of existing programs and resources. This committee, the sponsor and cosponsors, and those involved in drafting this particular piece of legislation, should be commended for an excellent piece of work.

The bill also contains better use of 416, the use of processed products, better use of feed grains that are not currently being used. There is a broad spectrum of tools available to the administration that we feel this proposed amendment would aid in getting some commodities moving and developing the purchasing power that's needed in many of these countries for our customers for the future.

In the Foreign Agricultural Service annual report, "Trade Policies and Market Opportunities for U.S. Farm Exports," for this current year there is a list of 32 countries in which increased income in those countries would provide additional export volume for U.S. producers. The secretary and AID administrator should be able to move quickly in selecting the most suitable of these for agricultural aid and trade missions.

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There is also an ARS report that's under development. We understand it's under peer review at this time, that runs along the same lines, pointing to vast areas of export development that can be made with the use of commodities in the export development field.

There are two levels of countries that we feel need help. One is the basket case type countries that we talk about, the developing countries that are receiving assistance at this time. We feel there is more work that can be done in these.

Research also indicates that there is another level of countries that in many cases have developed beyond AID assistance that the use of intermediate credit and other tools that are available could be used to move these countries into the cash customer territory, that that's what we need as far as rural prosperity is concerned.

It doesn't help to move these commodities if we don't reach the point where these countries become our cash customers down the road.

The National Commission on Agricultural Trade and Export Policy recommended last year that Congress call on the administration to restore the proportion of food aid in its foreign economic budget from the current level of 18 percent to one-third of the total of all such assistance. The same proportion of food aid resources as provided in the period 1968 to 1972.

To comment more specifically on some of the things being considered in the agricultural section of the overall trade bill, we would only comment that we are encouraged to see that the trade bill has requirements to look at the impacts on U.S. agriculture, from agriculture exports to be considered, before taking any type of retaliatory actions or granting any import relief, for that matter. Trade wars are of no help to anyone, and we must consider what we have to lose as well as what we have to gain.

Mr. Panetta, I have tried to hit the highlights of this testimony. The full testimony is submitted for the record. I'd be happy to respond to any questions you or other members of the committee might have.

[The prepared statement of Mr. Freeman appears at the conclusion of the hearing.]

Mr. PANETTA [acting chairman]. Thank you very much, Mr. Crain. We will hear from all the witnesses, and then we'll come back for questions.

Mr. Schwensen.

STATEMENT OF CARL SCHWENSEN, EXECUTIVE VICE PRESIDENT, NATIONAL ASSOCIATION OF WHEAT GROWERS

Mr. SCHWENSEN. Thank you, Mr. Chairman.

The committee has my statement. What I'd like to do is to highlight from that and make three or four points.

But first I'd like to express our appreciation for this opportunity to appear this afternoon and also to commend the committee for its role in the development of the provisions to be added to the trade bill.

The first point I want to emphasize is the need to continue the Export Enhancement Program, which has been very helpful to U.S.

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wheat growers to hang on to markets in a number of regions of the world where we've experienced keen competition from our competitors, which had generated about 25 percent of our exports last season and is moving at an accelerated rate this year.

We've heard the discussions in the committee with regard to improvements in the program. I think we support many of those. In particular, we would like to see the authorization increased for the program. It's currently now only at $1.5 billion. We would also like to see the program's duration extended, and, if possible, the minimum amount of money made available increased above the $1 billion level that currently is in the 1985 Farm Act.

We also think, echoing what Mr. Crain said, that it's very important for our country to have a strategy in its export programs. We see no such strategy now. We think an obvious strategy would be to provide a link between aid and trade programs. We have been keen in the development of this approach for some time.

We are very pleased that you, Mr. Chairman, have introduced legislation which would implement this approach. We think it's long overdue. We think that our problems are immense, but we must get started in doing something about them.

There is an obvious connection, we think, between the surplus resources that are accumulating here in the United States, the Commodity Credit Corporation now owning some $14 billion worth of commodities, and the need to assist in the development of economies in developing nations. That development, stimulating economic growth, in our judgment, is also going to lead to market growth as well.

We also comment members of this committee who are interested in expanding the funding and the personnel for USDA's Foreign Agricultural Service. We want to indicate our strong support for that.

We suggest that the committee might want to look, in its markup, at the possibility of establishing equal treatment for U.S. producers as they confront their neighbors in Canada with regard to the opportunity to export across the border. The Canadians require that all exports of U.S. wheat and other commodities be subject to a licensing system. Obviously, very little flows from the south to the north, but we are getting considerable quantities of wheat in recent years moving into the United States.

Finally, we would express concern about provisions that we know to be in the House Ways and Means trade bill, H.R. 3, which would restrict the President's authority in several areas—Section 201, Section 301—and also provisions that have been developed and may be brought once again to the House regarding required retaliation against nations that have large surplus trade accounts with the United States.

That concludes my testimony, Mr. Chairman, and I'll be happy to respond to questions at the appropriate time.

[The prepared statement of Mr. Schwensen appears at the conclusion of the hearing.]

Mr. PANETTA. Thank you very much.

Mr. Freeh.

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STATEMENT OF LaVERN A. FREEH, VICE PRESIDENT, PUBLIC AND INTERNATIONAL AFFAIRS, LAND O'LAKES, INC.

Mr. FREEH. Thank you, Mr. Chairman and members of the committee. I am pleased to be here and wish to thank you for this opportunity on behalf of our 350,000 farmer members and the dairy industry.

With your permission, I'd like to submit my entire testimony for the record and simply summarize.

Mr. PANETTA. Without objection, all of your testimonies will be made part of the record, and you can proceed as you wish.

Mr. FREEH. Thank you.

I'll touch on three topics, two of which are covered in my testimony and one of which is not.

I want to touch very briefly on casein imports, which is not in my prepared testimony. I want to talk about food aid as a tool for market development, and third, I want to just touch on the recently announced Dairy Export Incentive Program and some of the shortcomings we see in that program.

With regard to casein imports, the dairy industry feels it would be tragedy to allow casein imports to continue to increase and at the same time cut the price of milk on January 1, 1988, if we are above the 5 billion pound trigger, especially since part of the reasons that we will be above that trigger, if we are, is because of casein imports.

I understand that Congressman Jeffords is going to offer an amendment which would take into consideration the increased levels of casein imports when determining the trigger for a possible price cut on January 1, 1988, and we would certainly urge your support in passage of this amendment.

Now let me turn to food aid as a market development tool. About 7 years ago, we made a commitment at Land O'Lakes to become much more involved internationally. We did this because we felt that if we live in a world economy, we simply couldn't afford to ignore the world situation. Economic conditions are going to be determining our financial stability and our success as a business, and therefore we wanted to be in a position to better understand and to influence what's happening internationally.

We thought the best way to do this is in a two-pronged approach. We established a traditional sales-oriented marketing group to handle marketing of products. We also organized, however, a team of specialists and technical experts to provide technical assistance and special services for international economic development toward the long-time goal of market development.

Let me cite a couple of examples of how Land O'Lakes has participated as a partner with the U.S. Government in stimulating market development.

In Jamaica, we have used surplus butter and cheese to finance development, and we've set up a foundation that receives grants of cheese and butter. This is monetized. The money that comes from that is then given out by the foundation to be used for development purposes in Jamaica.

We have also done a similar thing in Ecuador where we are helping to stimulate livestock production to increase the supply of fluid

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milk available for human consumption, and again using this as a stepping stone to market development in that country.

And finally under the Foreign Assistance Act in 1985 and 1986, $5 million was committed annually to projects that use surplus U.S. dairy commodities to stimulate international agricultural and dairy development, and we are managing over $2 million of those grants at the present time.

So we are really involved in this whole thing called economic development and market development, and we are working with the tools that our Government provides.

Unfortunately, we've encountered obstacles in our efforts to replicate successful programs such as the Jamaican project. Currently the Public Law 480 Food for Peace and section 416 guidelines excessively restrict the use of commodities in sales and barter projects of the type that we've successfully used in Ecuador and Jamaica. Currently U.S. cooperatives aren't even mentioned in the administrative guidelines for Federal programs, despite their success, and the types of programs that we have implemented are no longer being encouraged.

Well, thankfully, Congressman Panetta, you have introduced a bill, the Agricultural Aid and Trade Missions Act, H.R. 1809, that addresses many of these problems, and if passed, the Agricultural Aid and Trade Missions Act would address many of the frustrations that we and the U.S. private voluntary groups have encountered.

We also support the bill's provision for the establishment of agricultural aid and trade missions to 15 eligible countries to encourage their participation in agricultural aid and trade programs. What we particularly like about this is that it provides for greater coordination between the U.S. aid and trade efforts that I think are very important.

So we again want to thank you. We think that H.R. 1809 will help our Nation achieve many of the goals that are important to us, and we thank you for your leadership and urge passage of this legislation.

Now let me close with some brief comments on the Dairy Products Export Enhancement Program. We looked forward with great anticipation to the guidelines on this program, but I must tell you that when the Department of Agriculture recently announced these guidelines, we were very disappointed and feel that the program, as it has been established, is largely unworkable and unhelpful to the private sector that is trying to export dairy products.

Let me cite a few examples of the shortcomings. The program guidelines restrict the bonus to dairy products which in turn need to be exported. There is no other commodity under the Export Enhancement Program that is put under those kinds of restrictions.

While the overall program allows for generic certificates and allows a lot more flexibility, when they talk about dairy, they've put it down and said,

> Hey, the only way you can get your bonus is with dairy products, and those dairy products have to be exported.

One of the great problems is that many of the countries that we want to deal with that have been wanting to deal with us don't

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want the product in the form in which it now exists in the CCC. They're looking for a different kind of a product. They're not interested in what we want to get rid of. They're interested in what they want to buy.

Therefore, we need to be permitted to manufacture products for the foreign market and substitute the products we receive as a bonus from the CCC, for domestic sales, and that way we are meeting the needs of the customer, and that's very important.

The program also requires that an exporter actually ship the product that we're selling before we can get a bonus product. Well, this makes it necessary for us to have to make two shipments. First, we ship the product that we're selling. Then when we can show that we've shipped that product, then we can go and get our bonus which then has to be shipped, so it causes delay and extra cost and so forth, and we feel there's no reason for this. The tremendous bond that we have to provide when we get into the export program makes it unnecessary to have this kind of a provision.

Finally, the Commodity Credit Corporation, right now they're saying they don't have many products available. They say, "You have to take the bonus in dairy products, only we don't have any." Or they're saying, "We'll give you the old product first. We're going to release that first."

Well, if we're selling on the world market to sell to humans, the old product isn't going to do us any good, because it's mostly for animal consumption.

So there are all kinds of problems. We tried to work with the administration before they released the program, saying, "Hey, if you put these kind of guidelines in it, the program is going to work; if you put these provisions in, it's going to be a very successful program." For some reason or another, they chose to come out with the most restrictive guidelines possible, and we think as a result of it the program simply can't work.

Mr. Chairman, I want to thank you for this opportunity to touch on these topics.

[The prepared statement of Mr. Freeh appears at the conclusion of the hearing.]

Mr. PANETTA. Thank you very much, Mr. Freeh.

Ms. Sheehan.

STATEMENT OF PEGGY A. SHEEHAN, COCHAIRMAN, COALITION FOR FOOD AID POLICY AND PROGRAMS, AND VICE PRESIDENT, NATIONAL COOPERATIVE BUSINESS ASSOCIATION

Ms. SHEEHAN. Thank you, Mr. Chairman.

I also would just like to make a few comments and have my testimony in the record, if I may, please.

Mr. PANETTA. Without objection.

Ms. SHEEHAN. First of all, I am here today representing two organizations: first of all, my own organization, which is the National Cooperative Business Association, which is a trade association representing over 400 U.S. co-ops. Mr. Freeh here is one of our members, also the national rural electric organizations such as Farmland Industry, Ohio Farm Bureau. We represent a cross-section of the American co-op community.

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We wear another hat in that we are in the international development business as well. We, too, operate programs overseas where we are using food aid commodities, and also we have a third arm where we are in the trading business. We have a cooperative trading company.

The other hat I'm wearing is that of the Coalition of Food Aid Policy and Programs. In 1985, four private voluntary agencies and two cooperatives joined together to form this coalition. The two cooperatives are myself, the National Cooperative Business Association and Land O'Lakes, and the four private voluntary organizations are CARE, World Vision, the Adventists, and Food for the Hungry. And with this coalition of voluntary agencies and co-ops, we are operating, actually managing programs, in over 40 countries around the world. So we're using quite a bit of food aid, both under section 416, as well as the Public Law 480 Title II Program.

In addition to working with our coalition members, we have also worked very closely with the agribusiness community. I think you know, Mr. Panetta, that the Food Aid Program not only affects the U.S. farmer; it also affects food processors, the shipping industry, the transport industry in general—railroads, port authorities. There are many, many jobs created with the Food Aid Programs.

So we have worked very closely with all of these industry groups when we've had issues relating to either Public Law 480 or section 416, and I'm happy to say that most of the groups have signed on and are supportive of our issues.

But today we're addressing how to expand trade, U.S. trade. And again, I'd like to add my congratulations to you for introducing H.R. 1809, because it addresses many of the problems. It also opens up new avenues for expanding trade.

And one of the things that was mentioned by several of the Congressmen this morning, as well as the witnesses, Mr. Yeutter and Mr. Lyng, is that our markets are in the Third World; our expansion of markets is in the Third World. There is an expected increase of over 1.2 billion people in the next 15 years, and those people will be consuming agriculture commodities.

But as we heard also, many of them don't have the money to buy our exports. And we feel, as Mr. Crain, said, that one way of helping these people to become our markets is to help them through the development process and making that linkage of aid to trade.

And I have had a little bit of experience in AID. I was in AID for 17 years as the Director of the Food for Peace Title II program, and that was one of our goals, was to try to make the Title II program, as well as all Public Law 480, more development oriented, so that it would not only lead to economic development in the countries, but also for market developments for our own U.S. commodities.

So this is one of the things that we are working on as a coalition, as well as we see in this particular trade bill.

Three of the points that I would like to emphasize, that Mr. Crain also mentioned, was that these aid to trade missions are very, very important. My experience in the past, as well as over the last few years, in getting some of the new initiatives under the 1985 farm bill implemented, we have felt, and it would seem to me, that these trade missions—actually going to the countries, sitting down with the host government officials, the private enterprise in

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the country, as well as having a private and a public team working together—will lead to the development of more programs in the total spectrum of all the mechanisms that we have, whether it be commercial sales, the EEP Program, the T Program, Public Law 480, or section 416.

And we need to look at each country in a country package. Too often we have compartmentalized our food aid and export initiatives. And basically the right hand doesn't know what the left hand is doing. So we need to look at it as a total approach and a total country approach.

Another point that I'd like to emphasize is the expansion—expanded uses of the section 416. Originally when 416 was enacted 4 years ago, it was intended to be a very short-term program, and the guidelines that were laid down were direct-feeding, probably emergency programs.

Now several years later, we are still in the 416 business, so that we feel that we need to broaden the uses that are allowed under the legislation, as well as being allowed to utilize more of the local currencies generated. And so I feel that these things will lead to better use of 416 and a less restrictive use.

I think I'll end my comments here, Mr. Chairman, and be willing to take questions.

Thank you very much.

[The prepared statement of Ms. Sheehan appears at the conclusion of the hearing.]

Mr. PANETTA. Thank you all very much for your testimony. I want to particularly thank you for the work you have done on the legislation because it is really the product of all of you that have worked together on this legislation and you have done outstanding work on the Senate side by getting it moved through the Senate Committee, almost unanimously, as I recall, and that is saying something on that side of the Hill, to be able to do that. I am proud to have offered the legislation on this side.

For the record, let me again ask Mr. Crain and others about trade missions and the purpose of the trade missions. What is the Department failing to do now would be helped by having the trade missions? Where is the gap here? What purpose would the trade missions serve?

Mr. CRAIN. Mr. Panetta, in our opinion, if the trade missions did nothing more than get the AID and FAS field people talking to each other, they would be certainly worth the money. That's not an overt criticism of the people in the field. They have plenty of problems out there.

We have the tendency as was said in other testimony to departmentalize many of our programs. We will create a program here in Washington and expect all the rest of the world to fit into it. That doesn't happen. Every country is different. Every situation is different.

To bring several agencies of Government together along with the private sector, going to look at a country, talk to that country about that country's specific needs and then put together a package that will address the problem will provide far more bang for our buck than what we are doing now.

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The people that are in the field right now have a full plate of what they have to do. They don't have time very frankly to be creative, to look at what the full spectrum of programs are outside their own bailiwick and put together what would be best for that country. There is a lot of potential out there.

If you go through the list of countries we provide aid to, we provide exports to right now in the world, there is a tremendous amount of expansion out there. Congressman Stenholm made the statement to the previous witness saying he was glad to hear of something that was working out in the country. There is a tremendous amount of optimism that can be created and bring some prosperity back to rural America if we start building our customers.

I would like to drop the term "economic development" and go to "customer development" because that's really what these programs can do. That's what is best for everybody concerned, to get them on their feet and make cash customers out of them for us.

Mr. PANETTA. Historically, is there any precedent for the trade mission?

Mr. CRAIN. As recently as 1981 and 1982, Secretary Lyng, then Deputy Secretary of Agriculture and Peter McPherson, got together and put together some dairy program activities that worked very successfully. Back in the late 1950's and 1960's, during Mr. Freeman's tenure as Secretary of Agriculture, this program worked extremely well, finding places where our commodities could be used and put them out there in a way that would be effective for everyone concerned. There is a good history for it.

Mr. PANETTA. Ms. Sheehan, on the PVO's that are out there now, can you give me a summary of their record of performance? Have there been any problems? How have they done their job out there? Could you try to give me an assessment of the work they have done?

Ms. SHEEHAN. Yes. Most of the PVO's I think are doing a very good job, an excellent job. They vary in degree depending on the amount of personnel they have. Their operations are very different. The church related PVO's operate very differently than say CARE does. Generally speaking, I think if you look at the record, you look at audit reports, I understand the GAO is working on a report right now and basically they have given the private voluntary organizations as well as the co-ops that are operating overseas a clean bill of health. There are always minor problems.

I had many, many audit reports sitting on my desk over the years. It was always a few management problems but nothing of any major scandals or anything of that sort.

Mr. FREEH. If I might, some of the problems have really been with the process itself. If you want to get involved, for example, in using food aid in development, you first of all have to run the gauntlet of six agencies here in Washington, the departmental coordinating committees coming together have to agree that you can use Public Law 480 or section 416 products. Once they have agreed to them, then you have to have a yearly authorization so you have to run through that gauntlet again and if some other country like New Zealand or somebody raises a point of question, maybe there is something wrong, everything stops and your whole project on the other end, out on the firing line that is waiting for product and ev-

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erything, has to wait now until this whole system takes a look at it.

This is why your bill is so important. First of all, it says in 45 days from the time a proposal is put in, it has to be dealt with. That's a good point. You stop some of this slowing things down because of bureaucracy.

The second thing it says is that if somebody calls forward for product that has been authorized, that has to be dealt with in 15 days. If they are going to take a look, if somebody does raise a question and they take a look at it, at least they have to be expedient about it.

Those are some of the problems that you run into. Then the other countries can use this against us because somebody who says, hey, I don't know if I like this product, they might really develop some new projects out here or new markets out here if we let this project go, so they raise the question and then there has to be Third Country consultation. While that is going on, you don't get any product. If you don't get the product, then that country can say, see, they are an unreliable supplier, so you are caught in a catch-22.

That's why we are very happy to see your bill, because it is going to speak to some of those things which are just unnecessary frustrations for us all.

Mr. PANETTA. Thank you very much. Mr. Johnson.

Mr. JOHNSON. Thank you, Mr. Chairman. I think each of the witnesses here have made a significant contribution to the deliberations on the part of the committee. I certainly concur with their opinion about Mr. Panetta's leadership on H.R. 1809, badly needed legislation.

I would have a question specifically for Mr. Schwensen. It is my understanding that the Canadian Government has used a mechanism of import licenses as in effect a nontariff barrier to United States wheat and wheat products. I'm contemplating the possibility of offering an amendment to H.R. 3 tomorrow, during this committee's markup, which simply would require the Secretary of Agriculture of our country to conduct a study to determine the nature and extent of the effect of the licensing requirement on the part of the Canadian Government on our reduced exports of wheat and wheat products, to see what can be done to more aggressively negotiate elimination of those requirements. I believe that is what GATT was intended to do in part, to eliminate those sorts of nontariff barriers.

I wonder if you would comment about whether this is a problem, and if so, whether such an amendment would be an appropriate response to the problem.

Mr. SCHWENSEN. I'd like to thank you for your interest in this matter, first, Mr. Johnson, and respond by saying that yes, it is a problem. Since early this year, United States and Canada have been participating in a free trade zone negotiation which was authorized by Congress last year.

We were very dubious about what it has achieved thus far. We are somewhat anxious about what it could achieve in the future.

The theory of the negotiation, of course, is to try to integrate and harmonize the two economies, even though we have very different

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systems, particularly in agriculture, where Canadian wheat marketing is conducted through a quasi-government monopoly board organization. That organization has been able increasingly over the last few years to export wheat into the United States mostly through processing locations in the northern tier of our country. Our farmers don't have the same opportunity because of the licensing requirements at the border as they approach Canada.

I think the study that you would direct the Agriculture Department to carry out would be very important in flushing out more knowledge about this lack of reciprocity and hopefully the results of your study could be available to the Government before these negotiations are concluded.

Mr. JOHNSON. I'm hopeful that would be the case. I think we would acquire some interesting information. I think we may be sending a message by that amendment at the same time, that isn't overly subtle in any event about our concern for these kinds of import restrictions.

Thank you.

Mr. PANETTA. Thank you. Mr. Harris.

Mr. HARRIS. I have no questions, Mr. Chairman.

Mr. PANETTA. Thank you all for your testimony. We appreciate your presentations and your good work.

The next panel will be Mr. George Sorn, executive vice president and general manager, Florida Fruit and Vegetable Association, Orlando; and Mr. George Uribe, executive vice president, West Mexico Vegetable Distributors Association, Nogales.

How are you? It's nice to see you again, Mr. Uribe. Are you making this a profession to come up here? [Laughter.]

Mr. URIBE. By way of a personal comment, Mr. Chairman, I think you are going to be very pleased with the statement I'm about to give. This is in light, of course, of your concerns about the bomb that is about to explode with the use of illegal pesticides, et cetera.

Mr. PANETTA. It is nice to see you. Mr. Sorn, you may proceed. Your statements will be made a part of the record and you can either summarize them or read from them as you wish.

STATEMENT OF GEORGE F. SORN, EXECUTIVE VICE PRESIDENT/GENERAL MANAGER, FLORIDA FRUIT AND VEGETABLE ASSOCIATION

Mr. SORN. Thank you, Mr. Chairman.

I will state that this is probably one of the few times George and I are on the same side of the fence.

Mr. Chairman, thank you for giving me the opportunity to share our views with the committee. My name is George Sorn, general manager of the Florida Fruit and Vegetable Association in Orlando, FL.

FFVA is a nonprofit agricultural trade association of fresh fruit and vegetable growers and shippers who grow and ship a substantial volume of all the fruits and vegetables from Florida. The growers have a long history of international trade involvement and are active in many areas involving U.S. international trade matters.

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We do back H.R. 1778, which you have introduced, the Safe Food Impact Act of 1987.

Last week, the Cabinet-level Economic Policy Council met to consider sanctions against the dumping of Japanese semiconductors. Sanctions were put in place by the President. Trade concerns have also been heard on many, many other items in the United States. What often goes unnoticed and therefore unattended is the dramatic increase in foreign food shipped to and consumed in the United States. Although per capita consumption of winter fruits and vegetables has not changed significantly, the origin of the fruits and vegetables has.

At one time, Florida was the leading supplier of the domestic winter vegetable market and its major foreign competition was Cuba. Now, during the winter months, Florida produces less than half of the tomatoes, peppers, cucumbers, and other winter vegetables consumed in the United States. Florida's competition is principally Mexico and while Mexico is allowed to ship freely into the United States and to take away our market, we cannot ship winter fruits and vegetables into Mexico, despite Mexico's accession to GATT.

Many imported foods even with substantially higher transportation costs, cost less in the United States than domestic foods. The United States has experienced its first trade deficit in agriculture in recent memory and there appears to be no relief in sight.

Food imports last year were almost doubled what they were in 1977. Our point is foreign produce, often financed by U.S. interests, is being shipped into the United States in greatly increased quantities and the U.S. consumer does not know the origin of the produce. More significantly, U.S. producers of fruits and vegetables are being hurt and we are continuing to lose our ability to maintain our share of our own market.

Recent investigations conducted by the GAO confirm several earlier reports that illegal pesticides on imported food products, especially on fresh fruits and vegetables, have about three times more chance of containing illegal chemicals than domestic produce and pose more of a threat to the health of U.S. consumers than do domestic produce.

In addition, when consumers don't know they are consuming a foreign product, they cannot avoid this greater risk associated with imported foods. Because of the high degree of U.S. governmental regulations and also our state regulations in our industry, consumers have been lulled into a false sense of security regarding the safety of the imported foods they are consuming. Consumers believe our Government is protecting us from consuming unsafe foods, both foreign and domestic.

Relatively speaking, this is true. Our food supply is probably the best and the safest in the world. However, this safety factor with foreign imported foods is three times less than domestically produced foods.

The GAO report notes serious deficiencies in inspecting by the FDA. In a 1979 report, the Comptroller General found that better regulations of pesticide residues on imported foods was essential. The recent report, 7 years later, reiterated the same urgent message. FDA's shortcomings include inadequate sampling and moni-

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toring at ports of entry; inadequate methods of testing for residues; and inadequate enforcement and imposition of sanctions. There should be no case where a food found by FDA to be adulterated is marketed and consumed by an unsuspecting public without a penalty to importers.

FDA should improve its food residue testing, needs to provide for the timely completion of reporting of laboratory analyses so that actions can be taken to prevent the marketing of adulterated foods. FDA should consider including penalty provisions such as automatic forfeiture of security bonds in importer agreements to deal with adulterated foods which have been marketed.

Mr. Chairman, H.R. 1778 is a first step in addressing a very real and very significant problem. It's an important and necessary step to get better inspections and enforcement of pesticide residues on imported foods and helping ensure more and more representative sampling. It should lead later to legislation designed to strengthen the penalty system for violations. It should provide the impetus to develop improved and faster testing methods of detecting pesticide residues on imports.

As you have so amply stated, Mr. Chairman, the risk of exposure to higher levels of illegal pesticides on imported foods is no longer acceptable. The American consumers must be protected. Certainly imported foods should comply with the same standards as food produced by the American farmers. This legislation will help achieve that goal.

On behalf of the members of FFVA, I thank you for giving us this opportunity and urge the members of this committee to favorably consider the legislation as a part of the overall trade bill being considered now.

Thank you.

[The prepared statement of Mr. Sorn appears at the conclusion of the hearing.]

Mr. PANETTA. Thank you, Mr. Sorn. Mr. Uribe, you may proceed.

STATEMENT OF GEORGE URIBE, EXECUTIVE VICE PRESIDENT, WEST MEXICO VEGETABLE DISTRIBUTORS ASSOCIATION

Mr. URIBE. Thank you, Mr. Chairman.

My name is George Uribe. I am the executive vice president of the West Mexico Vegetable Distributors Association which is located in Nogales, AZ. The association is a nonprofit organization incorporated under the laws of Arizona. It has 65 members, all of which are American businesses involved in importing, selling and distributing fresh winter vegetables and fruits that are grown mostly in the states of Sinaloa and Sonora on the west coast of Mexico.

I am here today to express general support for the international trade aspects of H.R. 1778, Safe Food Import Act of 1987, which was introduced, of course, by yourself, Mr. Chairman, Mr. Coelho and other members of this committee.

The bill calls for a redistribution of Food and Drug Administration resources to improve inspections and enforcement and we are 100 percent behind that. We are in support of that because the Port of Nogales is understaffed by the Food and Drug Administra-

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tion. Considering the circumstances, I think the Food and Drug inspection system works remarkably well, and we believe that the consumer is more than adequately protected from illegal pesticide residues.

At the same time, we believe that the level of inspections leaves a false impression that not enough is being done and leaves all of us open to criticism as well as accusations.

Because much of the Mexican fresh winter produce is imported into the United States and comes through Nogales, we believe that there should be a FDA laboratory in Nogales to conduct timely tests. The present testing is done in Los Angeles and we believe this is not an efficient way to monitor the imports.

We believe American consumers deserve to be assured that the foods they eat are pure and wholesome. Even though we as importers do our best to make certain that the vegetables and fruits are properly grown and harvested in Mexico, we believe American consumers would like to have the assurance of FDA tests that the foods are pure and wholesome. We endorse improved inspections and enforcement by the FDA, because without consumer confidence in the purity and safety of food, no one can remain in business—not the American farmer, not the importer, not the retailer.

We believe that improved inspections and enforcement are good, we also believe they must be conducted in ways that do not impede the flow of international trade. Because inspections can be used to affect the flow of trade, we must be careful not to be overzealous or do things that in turn can be used against our agricultural exports by our trading partners.

All of us are fully aware of the fact that some segments of the American farm economy are suffering and that in some instances, imports have impacted the domestic farm economy. We are careful, however, to avoid placing all of the blame on imports or foreign competition. We must remember that some agricultural products are not grown in the United States or are not available in sufficient quantities. Imports, therefore, are necessary to provide a full range of foods for Americans.

In the case of fresh winter vegetables, domestic sources, of course, are available in limited quantities. During the winter months, domestic production cannot meet the total demand for fresh fruits and vegetables. Imports must supplement the domestic supply. That is why we must keep our trade doors open, yet make sure that our FDA inspections and enforcement assure the availability of wholesome, pure, and fresh foods.

All too often, discussions about pesticide residues center on imports of vegetables and fruits from Mexico. Imports from other countries too frequently are not mentioned. We would like to emphasize, therefore, the fact that the foods we eat in the United States come from many countries and that a very wide variety of foods are being imported. We stress that improved FDA inspections and enforcement are essential on a very broad base to assure pure and wholesome foods for the American public. While we seek improved and timely inspections by the FDA in Nogales, we also encourage stepped up inspections at other ports of entry, because misapplications of pesticides can happen anywhere, in any country, at

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any time. That is why we all must have better and improved FDA inspection activities.

Some people often seem to believe that imports do not have to comply with the same rules and standards that are imposed on American farmers, producers, and growers. On the contrary, imports must meet every safety standard applicable to Americans. There are no exceptions. In many cases, imported vegetables and fruits must meet American grade and size requirements as well.

The issue is food safety and purity, not imports. The issue is what this Congress can do to ensure the American people that all the foods they eat are wholesome. So far, the FDA inspection system has worked fairly well, considering the limited resources. It is also true that if the FDA inspection and enforcement systems are not kept up to date with the changing conditions of our society and international trade, the food industry could face problems in the future.

It is for the purpose of protecting the future food resources that we believe improved inspections and enforcement by FDA will be of benefit to all of us.

We, therefore, endorse the general concept of H.R. 1778 so that Americans can continue to obtain pure and wholesome foods.

There is only one other item, Mr. Chairman, I would like to mention and this is in the area of the fast track relief import provision of H.R. 3. There are several technical points that should be cleared in the bill and with your permission, I would like to submit my comments in writing to your staff.

Mr. Chairman, I would like to reiterate my invitation to you to visit the Nogales area and see for yourselves what actually goes on with regard to the inspection services at Nogales and more particularly with regard to FDA and USDA.

Thank you.

[The prepared statement of Mr. Uribe appears at the conclusion of the hearing.]

The CHAIRMAN. Thank you very much, Mr. Uribe. Any questions?

Mr. PANETTA. I appreciate your position, Mr. Uribe. I think it is the right position because we have these laws that apply regarding pesticides and herbicides, and they apply both to domestic growers as well as imports.

The concern obviously is that—it's not an issue of what the laws require. The concerns that have been raised are the quality of enforcement that is going on. That is the issue that needs to be improved, particularly in view of the GAO report.

Let me just ask you; on goods that come in through Nogales, the FDA inspectors, will they take samples of the food in Nogales and then ship those samples to Los Angeles for testing?

Mr. URIBE. That is correct, which we think is an inadequate way of monitoring.

Mr. PANETTA. There should be a testing lab right there.

Mr. URIBE. Quite frankly, sir, I think it would improve the system which exists now, which I think up to now has worked fairly well, but there is a lapse of time, we have to honestly admit. In view of the fact that the laboratory in Los Angeles is not open on Saturday and Sunday, naturally the last day they collect the

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samples is on Thursday. Between Friday and Sunday, they do not collect samples.

Let me augment my remarks to the extent that let's face it, we are talking about monitoring an area, a group of growers and more specifically, our area, which is the state of Sinaloa. If you take a grower, as an example, who has 250 barrels of tomatoes, it is reasonable to assume that he has been inspected more than once or twice during the season. If nothing is detected on his merchandise the first several times, then I think it is reasonable to assume in the interim of Thursday, Friday, and Saturday, he is not going to be poisoning the American consumers. Come Monday, they start resampling.

There is a lapse and we will admit it. There is no question about it. We would like to see it improved because of the fact that we would not be subject to such criticism as we have been in the past.

Mr. PANETTA. Thank you very much. Thank you, Mr. Chairman.

The CHAIRMAN. I thank both of you gentlemen. We appreciate your testimony.

Mr. URIBE. Thank you, Mr. Chairman.

Mr. SORN. It is always a pleasure to visit with you.

The CHAIRMAN. The remaining panel is Mr. Scott Shotwell, National Forest Products Association and Mr. David Rogoway, American Plywood Association. Welcome to both of you, gentlemen. We will be very happy to hear from you at this time.

STATEMENT OF SCOTT SHOTWELL, ACTING PRESIDENT, NATIONAL FOREST PRODUCTS ASSOCIATION

Mr. SHOTWELL. Thank you, Mr. Chairman. I am Scott Shotwell, acting president of the National Forest Products Association. I would like to submit a formal statement for the record and just allude to certain points.

The CHAIRMAN. Without objection, your formal statement will appear in the record and you may proceed.

Mr. SHOTWELL. Thank you, Mr. Chairman.

The forest products industry commends this committee and the Subcommittee on Forests, Family Farms, and Energy for their efforts in drafting legislation for the trade bill.

The industry supports the Volkmer-Morrison proposed amendment that addresses the issue of ensuring that wood and processed wood products are agricultural products and are eligible for short and intermediate term GSM-102 and 103 Export Guarantee Programs administered by the USDA.

However, we would urge that the Committee include some additional statutory language. We endorse language that would clarify and mandate the USDA have the authority and financial tools to effectively promote export programs for wood and processed wood products.

It is our understanding that without specific statutory language mandating USDA's authority to promote all of its financial exporting programs, the GSM Program still may not be resolved and the next challenge may be around the corner.

The forest products industry urges the committee to add in the statute the following language:

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All wood and processed wood products, are eligible for and will be made available under all USDA commercial and concessional export credit programs to importing countries, upon the determination of the Secretary of Agriculture.

Currently, export opportunities are being lost because the USDA is unable to utilize these programs. This is a result of the USDA not having clear mandated authority in this area. It is our understanding that the definition of processed wood products will be included in the statute and we believe it is essential. We encourage the committee to use the U.S. International Trade Commission tariff schedules as the basis for this definition.

We support the Public Law 480 provisions included in this year's trade bill and the provisions included in the Volkmer-Morrison proposed amendment. These provisions would encourage countries receiving food aid to use the money generated by the sale of the commodities to purchase wood products for the needed shelter programs.

We also would like to express our endorsement for the proposed amendments to Subtitle D, the Forest Products Competitive Marketing Act of 1987. This act would provide technical assistance to states, nonindustrial landowners and small to medium sized forest product firms and authorize grants to states. This would compliment and enhance the efforts of the FAS program for providing needed assistance in that regard.

Thank you, Mr. Chairman. I appreciate the opportunity to testify.

[The prepared statement of Mr. Shotwell appears at the conclusion of the hearing.]

The CHAIRMAN. Thank you very much. Mr. Rogoway.

STATEMENT OF DAVID L. ROGOWAY, VICE PRESIDENT, MARKETING, AMERICAN PLYWOOD ASSOCIATION, ON BEHALF OF THE U.S. COALITION FOR FOREST PRODUCTS EXPORTS

Mr. ROGOWAY. Thank you, Mr. Chairman. The Coalition for Forest Products Exports appreciates the opportunity to address the committee today. Like Mr. Shotwell, I would like to turn in my written statement and briefly report on the highlights, with your permission.

The CHAIRMAN. Your written statement will appear in the record.

Mr. ROGOWAY. First of all, what is the coalition? I think it is important to understand what that is. We represent 1,783 mills, 370,000 jobs, and 120 million acres.

What is the issue at hand? Eligibility of processed wood products like plywood which are now being denied access to the Commodity Credit Corporation financing, that is the key issue. Why are we being denied access? One fundamental thing has happened. Simply put, there is confusion in certain executive agencies as to whether or not plywood and other like products are manufactured or processed. Like a bolt of lightning from Mount Olympus, some of these folks have decided all of a sudden that we are now manufactured.

It would be a little bit like declaring that a cow's milk is manufactured. We like declaring that we are not an ag product. I think if you plant a tree and you grow it and you harvest it and you

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produce a product from it, you are processed and you are an ag product by any other definition. That's what we are.

Why do we need the credit program? We have been working with the U.S. Department of Agriculture and Foreign Agricultural Service, which has been very supportive of our efforts to increase exports, which is a national priority. Working with this group for the past 6 years, we have been trying to increase our exports in developing countries, countries which desperately need housing, that this country can help them produce.

If there is one thing that we know how to do, it's how to build homes. Some of these areas are our neighbors. They are connected to us in Latin America. They are in high earthquake zones. Wood housing, the kind of thing we can work with them on and transfer technology is the kind of thing they need.

What is at stake? Right now, there is nearly $35 million of requests for access to wood products in the United States that are being denied because we cannot get access to the CCC credit program, access, by the way, which we thought we had.

Now, what are the benefits? It makes political sense and it makes economic sense. It will be positive for the LDC's. It will be positive for our domestic government. Mr. Chairman, I think this is probably unusual that you will hear in this committee, it does not require increased appropriations. It does not challenge foreign trade barriers. What we hope will result from this, Mr. Chairman, is restating the intent of Congress in legislation to ensure this misinterpretation cannot be repeated. It has to be in legislation. We have been through it and it does not work in report language and it does not seem to work in the sense of Congress language, legislation which clearly spells out that wood and processed wood products are agricultural processed products and that the Secretary of Agriculture has the authority and must use the authority to make those programs available to these ag commodities.

Now, the results of what I have presented today in written and oral testimony in legislative language of the trade bill will be positive for this Nation and for the developing nations.

And one final point, Mr. Chairman. We are not a dying industry. In the last several years, since 1967, we have decreased the number of plants, but we have increased our capacity by 88 percent. We are more efficient, we are competitive, and we can work offshore if we have these financing programs to back it up.

Thank you, Mr. Chairman.

[The prepared statement of Mr. Rogoway appears at the conclusion of the hearing.]

The CHAIRMAN. Thank you, sir.

Questions anyone? Mr. Panetta. Mr. Morrison.

Mr. MORRISON. Mr. Chairman, thank you.

I appreciate the fact that you have included this team here in front of the full committee. I want to assure you that—in fact, Mr. Volkmer would have been here, because we have, I think, a very close working relationship on the issues that have been presented here by both of these gentlemen to the full committee.

Mr. Chairman, since I know you have an interest in this, since you joined our Forestry Subcommittee last year for some time, we

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are truly excited about the potential. I hope you sense it from the testimony you have heard today.

I think probably the timber industry has probably shaken out the least effective production capacity. About 30 percent of it is gone. I think this probably will happen to the rest of agriculture in some various forms, but it's happened more quickly with timber, and if you look at the product that they produce, it has tremendous potential and demand. Nowhere in the world have we adequately supplied the need—satisfied the need for housing, and with some of the new wood preservation techniques, the potential for sales is dramatic.

I have on my desk a list of the requests for funding assistance from a number of countries in Central America, El Salvador and so forth, that your heart just goes out to because you so desperately want to help those people, and here's a way that we can. I think we find some positive support with USDA, but they are, as they often are, overruled or at least have arguments against them from State and Commerce and some of the other players in the trade setting.

So you will find, coming from Mr. Volkmer and myself and Mr. Panetta and other members of our subcommittee, proposals that include the requests as made by the industry, and that is that we make sure that we have GSM-102 and 103 funding available for some of these products. So I certainly hope that the committee would look favorably on these. We're having a little trouble making up the list exactly what should be on it and how you detail it, as far as the statute is concerned, but we feel very encouraged that the committee will look at this and that there will be some potential for expanding this opportunity.

Mr. Chairman, this has not been a question, because we have dealt with these two gentlemen before, but I wanted to make this point in the record in appreciation to you for including this panel in the hearing record.

The CHAIRMAN. Thank you, sir.

Judge Harris.

Mr. HARRIS. No questions, Mr. Chairman.

The CHAIRMAN. Thank you, gentlemen. We appreciate your cooperation, and I assure you it will be of invaluable assistance to us as we progress with our trade legislation.

Subject to further call of the Chair, the committee will stand adjourned until 1 p.m. tomorrow for the markup session.

Thank you very much.

[Whereupon, at 4:10 o'clock p.m., the committee was adjourned.]

[Material submitted for inclusion in the record follows:]

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TESTIMONY BY CLAYTON YEUTTER
UNITED STATES TRADE REPRESENTATIVE
BEFORE THE HOUSE AGRICULTURE COMMITTEE ON H.R. 3
MARCH 31, 1987

MR. CHAIRMAN AND MEMBERS OF THE COMMITTEE, I APPRECIATE THE OPPORTUNITY TO COMMENT ON THE LEGISLATIVE PROPOSALS IN H.R. 3 WITH RESPECT TO AGRICULTURAL TRADE POLICY. AS YOU PROBABLY KNOW, I HAVE SPENT MANY HOURS WITH YOUR COLLEAGUES ON THE WAYS AND MEANS COMMITTEE TO FASHION A TOUGH AND CREATIVE TRADE BILL--ONE WHICH WILL STRENGTHEN OUR ECONOMY AND PREPARE US FOR THE CHALLENGES OF THE 21ST CENTURY. I HAVE WELCOMED THE MANY IMPROVEMENTS THAT HAVE BEEN MADE THIS YEAR BY THE WAYS AND MEANS AND OTHER COMMITTEES. WE NEED TO HOLD ON TO THESE IMPROVEMENTS, AND FRANKLY, WE NEED TO MAKE A FEW MORE. THERE ARE STILL MAJOR PROBLEMS WITH SOME OF THE AGRICULTURAL TRADE PROVISIONS BECAUSE THEY FAIL TO MEET ONE OR MORE OF THE FOLLOWING TESTS:

(1) DOES THE PROPOSAL IMPROVE AMERICAN COMPETITIVENESS?

(2) DOES IT CONFER SUFFICIENT NEGOTIATING LEVERAGE, AND SUFFICIENT FLEXIBILITY TO USE THIS LEVERAGE, WITH OUR TRADING PARTNERS IN THE URUGUAY ROUND AND BEYOND?

(3) DOES IT CONFORM WITH OUR INTERNATIONAL OBLIGATIONS?

(4) IS IT LIKELY TO PROVOKE RETALIATION OR ENACTMENT OF MIRROR LEGISLATION WHICH WOULD BE HARMFUL TO U.S. EXPORTS?

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SECTION BY SECTION MY COMMENTS ARE AS FOLLOWS:

IMPROVEMENT OF AGRICULTURAL TRADE POLICY

SECTIONS 602 AND 603 OF THIS SUBTITLE WOULD DESIGNATE THE DEPARTMENT OF AGRICULTURE TO BE THE LEAD AGENCY WITHIN THE FEDERAL GOVERNMENT IN ALL MATTERS OF AGRICULTURAL TRADE POLICY. THE ADMINISTRATION OPPOSES THIS CHANGE IN CURRENT LAW.

THIS RECOMMENDATION WAS MADE BY THE NATIONAL COMMISSION ON AGRICULTURAL TRADE AND EXPORT POLICY LAST SPRING. THE COMMISSION WAS SEEKING TO HIGHLIGHT TO THE AGRICULTURAL COMMUNITY THE ROLE OF USDA IN TRADE POLICY FORMULATION. HOWEVER, ONE MUST CAREFULLY CONSIDER WHETHER SUCH A CHANGE WOULD BE ADVANTAGEOUS TO OUR AGRICULTURAL SECTOR.

THE ANSWER IS A CLEAR "NO." THE COMMISSION'S RECOMMENDATION AND THESE TWO SECTIONS OF H.R. 3 RUN COUNTER TO THE INTENT OF THE CONGRESS AND THE PRESIDENT UNDER THE 1979 TRADE AGREEMENTS ACT AND REORGANIZATION PLAN NO. 3, IN WHICH CONGRESS RECOGNIZED THE IMPORTANCE OF PUTTING ALL TRADE DECISIONS UNDER ONE ROOF. CONGRESS DIDN'T WANT TRADE POLICY TO BE HELD HOSTAGE TO OTHER CONCERNS AND RECOGNIZED THAT CONCESSIONS IN DIFFERENT SECTORS ARE SOMETIMES NECESSARY TO OPEN MARKETS FOR U.S. EXPORTS. IT IS IRONIC THAT AGRICULTURAL EXPORT INTERESTS WOULD PUSH FOR A COMPARTMENTALIZATION OF TRADE POLICY--FOR THAT WOULD REDUCE THE

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LEVERAGE WE CURRENTLY HAVE IN RESOLVING AGRICULTURAL DISPUTES. FOR EXAMPLE, WE RECENTLY REACHED AN AGREEMENT WITH THE EUROPEAN COMMUNITY THAT RESOLVED A DISPUTE OVER ACCESS TO THE SPANISH FEED GRAINS MARKET. AS PART OF THAT AGREEMENT, WE MAINTAINED SIGNIFICANT ACCESS FOR CORN AND SORGHUM, AND OBTAINED IMPROVED ACCESS FOR OTHER AGRICULTURAL COMMODITIES TO THE EUROPEAN COMMUNITY. BUT WE ALSO ACCEPTED SOME CONCESSIONS ON INDUSTRIAL ITEMS.

HAD THE NEGOTIATIONS BEEN COMPARTMENTALIZED, WE MIGHT NEVER HAVE REACHED AN AGREEMENT, IN WHICH CASE THE RESULTING TRADE WAR COULD HAVE BEEN DEVASTATING TO AGRICULTURE.

EXPORT ENHANCEMENT PROGRAM

SECTION 618 WOULD EXTEND THE EXPORT ENHANCEMENT PROGRAM TO ALL INTERESTED FOREIGN PURCHASERS. I CAN UNDERSTAND WHY SOME ARE ATTRACTED TO THIS PROPOSAL IN LIGHT OF THE FACT THAT THE EEP HAS ACCOUNTED FOR ABOUT 20 PERCENT OF OUR WHEAT EXPORTS THIS PAST YEAR. BUT EXPANDING THE EEP TO ALL FOREIGN PURCHASERS COULD TURN OUT TO BE A VERY COSTLY WAY TO PROCURE EXTRA SALES. IT MIGHT JUST BUY DOWN THE PRICE, AND WE WOULD BE ADOPTING AN EXPORT SUBSIDY PHILOSOPHY THAT MOST OF US HAVE VIGOROUSLY OPPOSED THROUGH THE YEARS.

AS YOU KNOW, WE HAVE OPERATED THE EEP SO AS TO TARGET SUBSIDIZING COMPETITORS---PRIMARILY THE EUROPEAN COMMUNITY (EC). THAT

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STRATEGY, OF COURSE, HAS PUT A PRACTICAL CONSTRAINT ON ELIGIBLE PRODUCTS AND DESTINATIONS. HOWEVER, A SHIFT TO ACROSS-THE-BOARD SUBSIDIES BY THE U.S. COULD FORCE OUR NON-SUBSIDIZING COMPETITORS TO ADOPT SIMILAR POLICIES. THAT WOULD MAKE ELIMINATION OF EXPORT SUBSIDIES ALL THE MORE DIFFICULT IN THE URUGUAY ROUND, AND IT WOULD DRIVE PRICES TO STILL LOWER LEVELS IN THE SHORT RUN.

I'M CONVINCED THAT THE CONTINUATION OF A TARGETED PROGRAM WITH THE UNCERTAINTIES THAT IT CREATES FOR OUR COMPETITORS REPRESENTS THE MOST EFFECTIVE MEANS FOR KEEPING PRESSURE ON SUBSIDIZERS--TO BRING THEM TO THE NEGOTIATING TABLE AND KEEP THEM THERE UNTIL WE ACHIEVE A LASTING RESOLUTION OF OUR PROBLEMS WITH TRADE-DISTORTING EXPORT SUBSIDIES.

AGREEMENTS TO REDUCE EXCESSIVE PRODUCTION

I DO NOT BELIEVE THIS AMENDMENT WOULD BE IN THE BEST INTEREST OF THE UNITED STATES. IT IGNORES THE PROTECTIONIST POLICIES OF NON-EXPORTERS, SUCH AS JAPAN. AND IT IGNORES THE COMPARATIVE ADVANTAGE THAT SOME EXPORTERS, SUCH AS THE U.S., HAVE IN MANY COMMODITIES.

PRODUCTION SURPLUSES, WHICH ARE THE TARGET OF THIS AMENDMENT, ARE ONLY THE SYMPTOMS OF THE PROBLEM IN AGRICULTURE. THE PROBLEM IS TOO MUCH GOVERNMENT SUPPORT AND PROTECTION, WHICH PROVIDES INCENTIVES TO OVERPRODUCE IN MANY COUNTRIES. UNTIL NATIONS JOIN TOGETHER IN REDUCING INCENTIVES TO PRODUCTION, WE CAN'T BEGIN TO EFFECT A CURE. IF WE CAN GRADUALLY GET GOVERNMENT OUT OF THE

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AGRICULTURAL MARKETPLACE ON A GLOBAL BASIS, PRODUCTION AND TRADE WILL BEGIN TO FOLLOW THE DICTATES OF ECONOMIC FORCES. THE U.S., BLESSED WITH RICH NATURAL RESOURCES AND THE WORLD'S MOST ADVANCED TECHNOLOGY, SHOULD BE A WINNER IN SUCH A SITUATION. WHY SHOULD WE SACRIFICE THIS TO SOME PRODUCTION-SHARING ARRANGEMENT THAT WILL PROBABLY RESULT IN THE FURTHER DOWNSIZING OF U.S. AGRICULTURE?

DETERMINING MATERIAL INTERFERENCE BY IMPORTED TOBACCO

I AM STRONGLY OPPOSED TO MAKING THE PROPOSED CHANGES IN SECTION 22 OF THE AGRICULTURAL ADJUSTMENT ACT OF 1933. WE HAVE A WAIVER FROM OUR INTERNATIONAL TRADE OBLIGATIONS UNDER THE GATT FOR ACTIONS WHICH ARE TAKEN IN CONFORMITY WITH THE PRESENT SECTION 22. IF WE AMEND SECTION 22, WE JEOPARDIZE THIS WAIVER. THE WAIVER PROVIDES THE INTERNATIONAL BASIS FOR OUR DAIRY, PEANUT, COTTON AND CERTAIN SUGAR QUOTAS, WHICH OTHERWISE WOULD BE CHALLENGED UNDER ARTICLE XI OF THE GATT (WHICH GENERALLY PRECLUDES QUOTAS).

THIS PROPOSAL WILL NOT IMPROVE OUR COMPETITIVENESS, NOR WILL IT CONTRIBUTE TO RATIONALIZING THE WORLD TRADING ENVIRONMENT.

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UNFAIR TRADE PRACTICES AND FOREIGN TRADE BARRIERS

I CAN APPRECIATE YOUR SENSE OF URGENCY IN ADDRESSING ALL THE TARIFF AND NON-TARIFF TRADE BARRIERS AND SUBSIDIES THAT DISTORT TRADE IN AGRICULTURAL PRODUCTS. THIS SENSE OF URGENCY COMES THROUGH LOUD AND CLEAR IN THE SENSE-OF-CONGRESS RESOLUTION WHICH WAS INSERTED INTO H.R. 3 LAST WEEK BY THE AGRICULTURAL TASK FORCE OF THE WAYS AND MEANS COMMITTEE. WE NEED TO KEEP IN MIND THAT OUR GREATEST HOPE FOR SUCCESS IS IN COMPREHENSIVE NEGOTIATIONS COVERING ALL BARRIERS AND INCENTIVES THAT DISTORT TRADE. WHAT WE NEED AS PART OF THESE BROAD NEGOTIATIONS ARE NEW COMPREHENSIVE DISCIPLINES IN AGRICULTURAL TRADE. THE CONGRESS CAN GREATLY ASSIST US IN THIS ENDEAVOR BY GRANTING THE PRESIDENT THE NEGOTIATING AUTHORITY HE HAS REQUESTED, INCLUDING THAT WHICH WILL BE APPLICABLE TO AGRICULTURE, AS SPELLED OUT IN THE PUNTA DEL ESTE DECLARATION LAUNCHING THE URUGUAY ROUND.

THE OBJECTIVES FOR THE AGRICULTURAL NEGOTIATIONS AGREED UPON BY 92 COUNTRIES ARE AS FOLLOWS:

-- IMPROVING MARKET ACCESS THROUGH THE REDUCTION OF IMPORT BARRIERS

-- IMPROVING THE COMPETITIVE ENVIRONMENT BY INCREASING DISCIPLINE ON THE USE OF ALL SUBSIDIES IN AGRICULTURAL TRADE.

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-- MINIMIZING THE ADVERSE EFFECTS THAT SANITARY AND PHYTOSANITARY REGULATIONS AND BARRIERS CAN HAVE ON TRADE IN AGRICULTURE.

OUR OBJECTIVE IN THESE TALKS IS TO GAIN AGREEMENTS THAT WILL RESULT IN THE PHASE-DOWN OF ALL MEASURES THAT RESTRICT ACCESS AND DISTORT TRADE IN AGRICULTURAL PRODUCTS. STATED MORE SIMPLY, OUR GOAL IS TO REDUCE SUBSTANTIALLY THE LEVEL OF GOVERNMENT INVOLVEMENT IN AGRICULTURE, WORLDWIDE. THE ADMINISTRATION IS SOLIDLY COMMITTED TO THIS OBJECTIVE. WE'RE CONVINCED THAT IT IS IN ALL OF OUR INTERESTS TO MOVE TO A SYSTEM WHERE AGRICULTURAL TRADE FLOWS ARE BASED MORE ON COMPARATIVE ADVANTAGE AND LESS ON THE ABILITY OF GOVERNMENTS TO PROTECT AND/OR ASSIST THEIR FARMERS.

THE U.S. HAS URGED, AND WILL CONTINUE TO URGE, THAT NEGOTIATIONS ON AGRICULTURE PROCEED EXPEDITIOUSLY AND CONCLUDE BY THE END OF 1988. WE ENVISION THAT COMMITMENTS MADE DURING THE NEXT TWO YEARS CAN BE PHASED IN OVER AN APPROPRIATE PERIOD OF TIME THEREAFTER.

MR. CHAIRMAN, I WOULD BE HAPPY TO RESPOND TO QUESTIONS.

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STATEMENT OF RICHARD E. LYNG
SECRETARY OF AGRICULTURE
BEFORE THE HOUSE AGRICULTURE COMMITTEE
MARCH 31, 1987

MR. CHAIRMAN, MEMBERS OF THE COMMITTEE, I APPRECIATE THE OPPORTUNITY TO DISCUSS WITH YOU THE DEPARTMENT'S POSITION ON TRADE LEGISLATION AND ITS POTENTIAL IMPACT ON WORLD AGRICULTURAL TRADE.

U.S. AGRICULTURAL EXPORTS

THANKS TO RESMARCH, TECHNOLOGY AND HARD WORK, U.S. FARMS AND FARMERS RANK AMONG THE MOST EFFICIENT AND PRODUCTIVE IN THE WORLD. WITH ASSETS OF NEARLY $700 BILLION, AGRICULTURE IS THE NATION'S LARGEST INDUSTRY AND CONTRIBUTES GREATLY TO THE OVERALL ECONOMIC WELL-BEING OF THIS COUNTRY.

TODAY THE PROCESSING, TRANSPORTING AND MARKETING OF FARM GOODS ACCOUNT FOR ABOUT 21 MILLION JOBS. IN ADDITION, PRODUCING AGRICULTURAL PRODUCTS JUST FOR THE EXPORT MARKET INVOLVES 1 MILLION U.S. WORKERS--HALF ON AND HALF OFF THE FARM.

THE FARM SECTOR DEPENDS HEAVILY ON AGRICULTURAL EXPORTS. AND AFTER SEVERAL GLOOMY YEARS, THE EXPORT PICTURE IS BEGINNING TO BRIGHTEN. DURING FISCAL YEAR 1987, THE UNITED STATES IS EXPECTED TO SHIP OVERSEAS 114 MILLION TONS OF U.S. AGRICULTURAL GOODS VALUED AT $26 BILLION. THIS 4-PERCENT INCREASE IN VOLUME OVER LAST YEAR MEANS THAT OUR FARM PROGRAMS ARE BEGINNING TO MAKE US ONCE AGAIN COMPETITIVE IN THE WORLD MARKETPLACE.

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OBVIOUSLY, MAINTAINING AND EXPANDING EXPORT MARKETS IS WHERE U.S. AGRICULTURE'S GROWTH POTENTIAL LIES. BUT WE HAVE LEARNED IN RECENT YEARS THAT WE CANNOT TAKE THAT GROWTH FOR GRANTED.

WITH DECLINING WORLD TRADE IN AGRICULTURAL PRODUCTS BUT RECORD OUTPUT, ALMOST EVERY NATION HAS TRIED TO SOLVE ITS FARM PROBLEMS BY USING TRADE RESTHICTIONS OR SUBSIDIES OF ONE FORM OR OTHER.

VULNERABILITY OF AGRICULTURAL TRADE

AGRICULTURAL TRADE IS PARTICULARLY VULNERABLE TO PROTECTIONIST ACTIONS FOR THREE PRIMARY REASONS.

THE FIRST IS THE DESIRE OF ALL NATIONS TO BE AS SELF-SUFFICIENT IN FOOD AS THEIR RESOURCES WILL PERMIT. MOST GOVERNMENTS WANT TO NURTURE THEIR FOOD PRODUCTION SYSTEMS AND SUPPORT THEIR FARMERS TO ENCOURAGE PRODUCTION.

THE SECOND IS THAT AGRICULTURAL PRODUCTION CANNOT ADJUST QUICKLY TO FLUCTUATIONS IN DEMAND. UNLIKE A FACTORY ASSEMBLY LINE, AGRICULTURAL PRODUCTION CANNOT BE SHUT DOWN IN A WEEK OR A MONTH. ITS PRODUCTION CYCLES ARE MEASURED IN MONTHS AND YEARS, NOT DAYS OR WEEKS. MOREOVER, CHANGES IN WEATHER CAN DRAMATICALLY ALTER EXPORT OR IMPORT AVAILABILITY. TO PROTECT FARMERS, OR FOOD CONSUMERS, THERE IS A TENDENCY FOR GOVERNMENTS TO DRIFT INTO VARIOUS FORMS OF PROTECTIONIST ACTIONS.

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FINALLY, AND LARGELY BECAUSE OF THE FIRST TWO FACTORS, THE WORLD COMMUNITY HAS NEVER FACED UP TO THE DIFFICULT TASK OF ESTABLISHING WORKABLE RULES FOR AGRICULTURAL TRADE.

NEED FOR A GLOBAL ORIENTATION

THAT BRINGS ME TO THE GLOBAL FACTORS THAT MUST BE CONSIDERED WHEN INTRODUCING ANY CHANGES INTO U.S. TRADE POLICY. WE ARE NO LONGER AN ISLAND UNTO OURSELVES--IF INDEED WE EVER WERE. GLOBAL MACROECONOMIC FORCES ARE AS IMPORTANT AS U.S. ACTIONS IN DETERMINING THE GENERAL HEALTH OF THE U.S. ECONOMY. CONSEQUENTLY, WE MUST CONSIDER THE "BIG PICTURE" IF WE ARE TO DEVISE POLICIES THAT DO NOT IMPEDE ADJUSTMENTS OF U.S. INDUSTRY--INCLUDING AGRICULTURE--THROUGH THE WORLD'S CHANGING ECONOMIC ENVIRONMENT.

GRANTED, IT'S EASY TO GET CAUGHT UP IN THE PROBLEMS WE ARE HAVING WITH INDIVIDUAL TRADING PARTNERS.

WITH THE EUROPEAN COMMUNITY, WE WORKED FOR MONTHS ON THR ISSUE OF COMPENSATION FOR TRADE WHICH THE UNITED STATES WOULD HAVE LOST AS THE RESULT OF THE ADOPTION OF EC AGRICULTURAL PROTECTION FOR SPAIN AND PORTUGAL LAST YEAR. THE TALKS WENT DOWN TO THE WIRE, BUT WE DID REACH AN AGREEMENT. THIS IS THE FIRST TIME THE UNITED STATES HAS RECEIVED ANY MEANINGFUL COMPENSATION FROM THE EC FOR TRADE LOSSES IN AGRICULTURE RESULTING FROM EC ENLARGEMENT.

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BUT THIS SETTLEMENT DOKS NOT MEAN THAT OUR DIFFICULTIES WITH THE EC ARE OVER. WE ARE DEEPLY CONCERNED ABOUT THE RECENT PROPOSAL FOR A CONSUMER TAX ON VEGETABLE OIL. THIS PROPOSAL IS ANOTHER ATTEMPT BY THE EC TO SHIFT THE COST OF ITS OILSEED PRODUCTION SUBSIDIES TO THIRD COUNTRY SUPPLIERS. IT WOULD IMPAIR THE VALUE OF TRADE CONCESSIONS WE NEGOTIATED WITH THE COMMUNITY IN THR 1960S.

WITH JAPAN WE WILL RETURN THIS YEAR TO THE QUESTION OF EEPANSION OF THE MARKET FOR BREF AND CITRUS FRUIT AND REMOVAL OF QUOTAS FOR A NUMBER OF OTHER PRODUCTS. WE WILL STRESS TO THE JAPANESE THAT THE $60 BILLION TRADE DEFICIT WE WILL HAVE THIS YEAR WITH THEM IS UNACCEPTABLE. JAPANESE IMPORT POLICIES MUST BE LIBERALIZRD.

OBJECTIVES FOR AGRICULTURAL TRADE

FREER AND FAIRER TRADE IS THE MAJOR AGRICULTURAL TRADE OBJECTIVE OF THIS ADMINISTRATION. WE HAVE BASED OUR CURRENT TRADE POLICY ON THE BELIEF TRAT LIBERAL TRADE FOSTERS THE MOST EFFICIENT USE OF AGRICULTURAL RESOURCES IN A WORLD OF RISING POPULATIONS AND INCREASING INTERDEPENDENCE. ALL COUNTRIES BENEFIT IF EACH NATION PRODUCES FOR THE WORLD MARKET THOSE PRODUCTS IT PRODUCES BEST AND MOST EFFICIENTLY.

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CURRENT WORLD FOOD SURPLUSES MEAN THAT THERE IS FIERCE COMPETITION FOR MARKET SHARE AND THAT COMPETITION WILL CONTINUE. BUT WE RECOGNIZE THAT FREE MARKET COMPETITION OFFERS THE BEST WAY TO ACHIEVE SOLID, SUSTAINABLE, LONG-TERM GROWTH FOR BOTH THE UNITED STATES AND WORLD AGRICULTURAL SYSTEMS. MARKET FORCES, NOT GOVERNMENTS, SHOULD BE THE PRIMARY INFLUENCE ON THE MOVEMENT OF TRADE.

U.S. AGRICULTURE CANNOT REACH ITS FULL EXPORT POTENTIAL UNTIL FAIRNESS IN THE WORLD MARKET IS ENSURED. THEREFORE, THIS ADMINISTRATION IS COMMITTED TO COMPREHENSIVE NEGOTIATIONS FOR THE ELIMINATION OR REDUCTION OF RESTRICTIVE TRADE PRACTICES ABROAD.

GATT URUGUAY ROUND

ONE REASON AGRICULTURE REMAINS SO HIGHLY PROTECTED AND SUBSIDIZED AROUND THE WORLD TODAY IS THAT THERE HAVE NEVER BEEN STRONG RULES UNDER THE GENERAL AGREEMENT ON TARIFFS AND TRADE FOR FREE AND FAIR TRADE OF FARE COMMODITIKS.

IT IS ESSENTIAL TO THE ORDERLY CONDUCT OF TRADE TO WEITE MORE EFFECTIVE GATT RULES FOR CONTROLLING UNFAIR TRADE PRACTICES AND IMPROVING ACCESS TO FOREIGN MARKETS. THE URUGUAY ROUND REPRESENTS THE BEST OPPORTUNITY WE WILL HAVE IN THIS DECADE FOR DEVELOPING GROUND RULES THAT WILL FACILITATE TRADE IN AGRICULTURAL PRODUCTS.

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THE PRIMARY U.S. OBJECTIVE IN THE URUGUAY ROUND IS TO CREATE AN ENVIRONMENT FOR THE UNITED STATES AND ALL COUNTRIES TO COMPETE FAIRLY FOR THE WORLD'S COMMERCE. WE ARE SEEKING TO ACCOMPLISH THIS IN A NUMBER OF WAYS.

TO IMPROVE MARKET ACCESS, WE ARE SEEKING COMMITMENTS TO APPLY NO NEW IMPORT BARRIERS AND TO ELIMINATE EXISTING NONTARIFF BARRIERS BY A SCHEDULED DATE.

TO IMPROVE THE COMPETITIVE ENVIRONMENT, WE ARE SEEKING TO FREEZE CURRENT SUBSIDIES THAT AFFECT TRADE, FOLLOWED BY A PHASED REDUCTION OF SUCH SUBSIDIES TO ZERO BY A SCHEDULED DATE.

TO MINIMIZE THE ADVERSE EFFECTS THAT SANITARY AND PHYTOSANITARY REGULATIONS AND BARRIERS CAN HAVE ON TRADE IN AGRICULTURE, WE ARE SEEKING AGREEMENT THAT FOOD, PLANT, AND ANIMAL HEALTH REGULATIONS WILL NOT BE USED TO RESTRICT TRADE.

THE UNITED STATES ALSO SEEKS IMPROVEMENT IN GENERAL GATT DISPUTE SETTLEMENT PROCEDURES SO THAT ONCE TRADING NATIONS HAVE AGREED ON BETTER RULES, WE CAN BE ASSURED THEY WILL BE APPLIED CONSISTENTLY AND DEFENDABLY.

STATUS OF THE NEW ROUND

WE WOULD LIKE TO SEE AGREEMENTS REACHED AS QUICKLY AS POSSIBLE ON HOW ALL NATIONS WILL REDUCE TRADE DISTORTING MEASURES. THE ACTUAL IMPLEMENTATION OF THESE AGREEMENTS COULD OCCUR OVER A LONGER PERIOD.

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IN SUPPORT OF THAT GOAL, THE WORKING GROUP ON AGRICULTURE MET IN GENEVA LAST MONTH AND BEGAN SUBSTANTIVE DISCUSSIONS. WORK IS UNDERWAY AND THE GROUP EXPECTS TO MEET AGAIN IN MAY. THE UNITED STATES AND MOST OTHER GATT MEMBERS HAVE PUT A GREAT DEAL OF TIME AND EFFORT INTO ORGANIZATIONAL MATTERS OVER THE PAST FEW MONTHS. WE FREL IT IS VITAL THAT NEGOTIATIONS BE ORGANIZED CORRECTLY AT THE OUTSET. WE MUST NOT REPEAT THE PAST WHEN NEGOTIATIONS HAVE BEEN BLOCKED ON PURELY PROCEDURAL GROUNDS.

FOR THE URUGUAY ROUND TO SUCCEED, ALL NATIONS MUST BE WILLING TO EXAMINE THEIR TRADE POLICIES AND FARM PROGRAMS FROM THE PERSPECTIVE OF HOW THESE POLICIES WILL AFFECT OTHER NATIONS, DEVELOPED AND DEVELOPING ALIRE.

THE WORLD'S TRADING NATIONS MUST MAKE A DECISION SOON: WILL TRADE IN THE FUTURE BE CONDUCTED IN A FREE AND RATIONAL ENVIRONMENT IN WHICH ALL NATIONS CAN COMPETE FAIRLY? OR WILL IT BE CONDUCTED THROUGH A SERIES OF COSTLY AND PAINFUL BATTLES OVER WORLD MARKETS?

PAST EXPERIENCE HAS SHOWN US THAT THERE ARE NO WINNERS IN TRADE WARS.

THAT IS WHY WE ARE WARY OF A NARROW INTERPRETATION OF THE CONCEPT OF RECIPROCITY. THE BASIC PREMISE BEHIND RECIPROCITY--EQUITY IN TRADE RELATIONSHIPS--HAS BEEN AN ESSENTIAL FEATURE OF U.S. POLICY IN MANY ROUNDS OF MULTILATERAL TRADE NEGOTIATIONS. OUR AIM BAS ALWAYS BEEN TO SECURE FAIR AND EQUITABLE MARKET OPPORTUNITIES FOR U.S. FARM EXPORTS.

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HOWEVER, WE HAVE NEVER AIMED AT WHAT TRADE EXPERTS TERM "BILATERAL RECIPROCITY." WE HAVE NOT TOLD ANOTHER COUNTRY THAT WE WILL BUY ONLY AS MUCH FROM THEM AS THEY BUY FROM US. WE BELIEVE THAT TO DO SO WOULD ULTIMATELY RESTRICT WORLD TRADE, RATHER THAN ENCOURAGE IT.

THE IMPORTANCE OF AN OPEN TRADING ENVIRONMENT

PROTECTIONISM IS ONE OF THOSE GAMES WEICH NO ONE WINS. RRECTING A TRADE BARRIER INVITES SOMEONE ELSE TO DO THE SAME. WHAT IS GAINED IN ONE PRODUCT AREA IS LOST IN ANOTHER. THE EVENTUAL OUTCOME IS RESTRICTED TRADE AND A SERIES OF TRADE WARS.

OUR NATION'S ECONOMIC PROSPERITY WOULD BE ILL-SERVED BY EVEN A FLIRTATION WITH PROTECTIONISM. IF WE ENACT LEGISLATION THAT SHUTS OTHER EXPORTING COUNTRIES OUT OF OUR MARKETS, THEY CAN AND WILL SHUT US OUT OF THEIRS.

AND THEN WE WILL EAVE RECIPROCITY. WE JUST WON'T HAVE ANY TRADE.

THE NEAR-TERM GOALS OF THE ADMINISTRATION'S PROPOSED TRADE LEGISLATION, THE "TRADE COMPETITIVENESS ACT OF 1987", SUBTITLE A OF H.R. 1155, ARE TO STRENGTHEN OUR TRADE LAWS WITHOUT INVITING PROTECTIONIST REACTIONS ABROAD AND TO BETTER PREPARE OUR NATION FOR COMPETITION IN WORLD TRADE.

WITH RESPECT TO H.R. 3, WE AGREE WITH THE COMMENTS MADE BY MR. YEUTTER TO SPECIFIC PROVISIONS OF THAT BILL. WE OPPOSE THE PROVISIONS OF TITLE VI BECAUSE IN OUR VIEW, THEY ARE EITHER UNNECESSARY OR REDUNDANT OF PROGRAMS ALREADY ADMINISTERED BY THE DEPARTMENT.

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OUR GOAL FOR THE URUGUAY ROUND IS TO CREATE A CLIMATE FOR GLOBAL TRADE GROWTH AND OPPORTUNITIES FOR ALL EFFICIENT PRODUCERS. IT WILL BE A LONG PROCESS, AND MUCH WORK STILL LIES AHEAD. CLEARLY, TRADE POLICY, BOTH HERE AND ABROAD, MUST BE MORE MARKET-ORIENTED IF WE ARE TO HAVE A RATIONAL INTERNATIONAL TRADE ORDER. THIS GOAL THANSCENDS POLITICS, BOTH DOMESTIC AND INTERNATIONAL. IT IS NOT AN EASY GOAL, I ADMIT. BUT IT IS ONE WORTH STRIVING TO ACHIEVE.

THAT CONCLUDES MY STATEMENT, MR. CHAIRMAN. I WILL BE HAPPY TO RESPOND TO QUESTIONS.

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STATEMENT OF REPRESENTATIVE TERRY L. BRUCE
BEFORE THE HOUSE AGRICULTURE COMMITTEE
March 31, 1987

Mr. Chairman, I appreciate having the opportunity to appear today before you and the distinguished members of the Committee on which I was honored to serve during the 99th Congress. I am proud to have been a participant during that Congress in the writing of the 1985 Farm Bill. We worked hard to build the coalition which put together a five-year plan to stabilize the basic agricultural economy and enhance the competitiveness of our exports. I am pleased to be here today to testify on H.R. 3 and to reaffirm that commitment to improving our agricultural trade.

In hammering out those provisions of the Farm Bill which pertain to trade, we recognized the importance of agriculture in the general economy of the U.S. The farm and food system of the United States is both the nation's largest industry and its major employer. According to the final report of the National Commission on Agricultural Trade and Export Policy, in 1983 the industry generated $650 billion in economic activity, or 20 percent of the Gross National Product. Approximately 21 million Americans are employed in agriculture-related occupations, and it has been estimated that over a million full-time U.S. jobs are directly related to agricultural exports.

Our country is the world's largest exporter of agricultural products. Two of every five acres harvested in this country are devoted to the production of crops that are exported. In 1984, the

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United States earned $38 billion from agricultural exports. The USDA estimates that every additional $1 billion of farm exports creates another $1.37 billion of economic activity in such areas as financing, transportation, warehousing, and the production of farm supplies. Moreover, each additional $1 billion in farm trade makes jobs for 30,000 to 35,000 or more people.

My home state of Illinois was the second leading agricultural exporter in the United States in fiscal year 1984, with sales totalling $3.3 billion. That year, Illinois exports represented 8.6 percent of the total United States exports of agricultural commodities. The sale of agricultural exports stimulated an estimated $6.6 billion in economic activity and growth for the state, and approximately 155,000 Illinoisans were employed full-time in farm and food-related exporting. In my home district in east-central Illinois, farmers export about 50 percent of total production. Agricultural trade is vital to the 19th congressional district, to the State of Illinois, and to the health of the entire American economy.

The size of the overall U.S. trade deficit has been held down with the help of a consistently positive annual balance of trade in agricultural products. Illinois, in its agricultural trade with the rest of the world, runs a surplus of over $2 billion. We have a vested interest in the health of our agricultural export business, but then so does every American. When farm exports suffer, farmers suffer, and government farm program costs increase. But when exports expand, fewer tax dollars are needed for farm programs. Consumers benefit from the farmer's lower production costs, and the dollars from the favorable balance of trade in farm exports are used to pay for

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imports of other consumer goods.

Unfortunately, since 1981, U.S. farm exports have declined by about $10 billion. We estimate that each $1 billion in lost exports costs us 30,000 jobs. That means that our slumping farm exports alone have cost about 300,000 American jobs, and the general economy has been deprived of economic activity that would have added billions of dollars to the gross national product.

U.S. agriculture is one of the most efficient industries in the world. Today the output of one farmer feeds 116 people, including 30 people in other countries. And yet, American agriculture must somehow become more competitive, more market-oriented. I think that the provisions set forth in Title VI of H.R. 3 are a positive step in that direction.

One of the areas in which we may be able to make a difference--where we may be able to enhance our export market--is in grain quality. During the 99th Congress I introduced the "Optimal Grain Grading Act of 1986." The Federal Grain Inspection Service is currently soliciting comments on the desirability of adopting an optimal grain grading system such as I proposed. This review is only part of our efforts to improve grain quality by revising our standards as set forth in the "Grain Quality Improvement Act of 1986," which became effective last November.

I am pleased to note that Title VI of H.R. 3 also addresses grain quality issues. As I said, in Illinois we export about half the grain we grow. My congressional district alone exports something on the order of 160 million bushels of grain each year, so anything we can do

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to make our farm exports more competitive is good for the local economy. The recent declines in exports have hit us extremely hard. Although we stand on probably the best grain-producing soil in the world, we are told that we are selling an inferior product. I've brought along some samples of the grain we ship so you can see the obvious differences.

I know that our farmers can and do produce clean, high-quality grain, but the standards system has been working against them by making it hard to stay in business delivering and exporting clean grain.

In the old days, when we were the world's main grain supplier, we would occasionally hear complaints that our corn, wheat and soybeans arrived in foreign ports loaded with dirt and in poor condition. Our customers used to threaten to take their business elsewhere. Now, they are doing it. Australia, Canada, Argentina, Brazil, and Europe are trying to beat us with a better price and a better product.

The grain quality problem doesn't just affect international trade, it affects the farmers in my district and in each of your districts. Farmers are already suffering from low commodity prices, and the controversy has been exploited by our foreign customers who want us to lower our prices even further.

Six members of this committee held a hearing on the issue of grain quality last summer in Champaign-Urbana in my congressional district. We heard testimony from producers, from elevator operators, and from exporters, and some of the ideas in that testimony were incorporated in the recommendations for improving grain quality which became part of the 1985 Farm Bill. It is my hope that general farm

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and commodity groups, storage associations, universities, and exporters will continue to work together and with us to improve U.S. grain standards and inspection procedures in an effort to regain our place in world markets.

Improving the quality of the grain we export is of course only one small step we must take to enhance our competitiveness. I agree with the National Commission on Agricultural Trade and Export Policy in its recommendations that we place additional emphasis on value-added trade, that we target market growth potential in Third World countries, and particularly that we use all existing tools to expand markets for U.S. agricultural commodities and products. To that end, I believe we should maintain the export credit and enhancement programs contained in the 1985 Farm Bill and enhance the role of the U.S. Department of Agriculture in pursuing a rigorous program of market development, much as delineated in H.R. 3.

Mr. Chairman, again I want to thank you for allowing me to testify before the committee this afternoon. I also want to thank the members of the committee for taking the time to work on this legislation which is so vital to my district, the state of Illinois, and our country.

It goes without saying that the solution to our current trade imbalance will not be solved by the legislation we are considering. We also need to deal with a variety of macroeconomic, industrial, and educational issues which will directly affect our nation's trading posture. However, H.R. 3, of which I am a cosponsor and for which I voted last week in the Energy and Commerce Committee, is a step in the right direction, and I want to congratulate the Agriculture Committee for moving in this direction.

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REMARKS OF THE HONORABLE HAL DAUB
BEFORE THE COMMITTEE ON AGRICULTURE
MARCH 31, 1987

MR. CHAIRMAN, MEMBERS OF THE COMMITTEE, IT'S A PLEASURE TO BE HERE TODAY TO TALK ABOUT AGRICULTURE'S STAKE IN THE TRADE BILL.

MY MAIN CONCERN IN THIS TRADE BILL ARE SOME OF THE PROVISIONS WHICH COULD POISON AN ALREADY SICK FARM EXPORT PATIENT. AFTER A 40% DROP IN FARM EXPORTS, THE LAST THING WE NEED IS ARE LAWS MANDATING RETALIATION THAT COULD PROVIDE THE INCENTIVE TO SLASH THEM.

LET ME SAY AT THE OUTSET THAT MY CHAIRMAN, DANNY ROSTENKOWSKI, HAS DONE AN INCREDIBLE JOB AT BRINGING ALONG A CONSNESUS ON THIS BILL BARRING THE UNFORSEEN, WE WILL HAVE A COMPREHENSIVE TRADE BILL THIS YEAR. IN JUST TWO YEARS CHAIRMAN ROSTENKOWSKI WILL HAVE OVERHAULED OUR TAX AND TRADE CODES TWO EXTRAORDINARY FEATS HE IS PROVING TO BE THE MOST PRODUCTIVE WAYS AND MEANS CHAIRMAN OF MODERN TIMES.

I WAS ONE OF THE FIRST REPUBLICANS TO SUPPORT MY CHAIRMAN ON TAX REFORM. SO IT DOESN'T SIT LIGHTLY WITH ME TO BE ONE OF THE FEW MEMBERS TO BREAK WITH HIM ON THE TRADE BILL.

EVERYBODY AGREES THAT UNFAIR TRADE PRACTICES ARE ONLY WORTH ABOUT 15% OF OUR TRADE DEFICIT. THE FEDERAL BUDGET DEFICIT ACCOUNTS FOR ABOUT 70% THIS DOESN'T MEAN I WANT TO TURN THE OTHER CHEEK ON TRADE CHEATS. WE NEED TOUGH TRADE LAWS WITH FOCUSED SANCTIONS THAT BITE. HOWEVER, WE DON T NEED TRADE LAWS THAT MANDATE G A T T. ILLEGAL OR UNJUSTIFIED RETALIATION MAKING FARM SALES AN EASY TARGET. FARM EXPORTS ARE MOST VULNERABLE BECAUSE OF READILY AVAILABLE, COMPARABLY PRICED SUBSTITUTES. THEY TEND TO TAKE THE FIRST HIT IN WARS OF RETALIATION.

WE JUST HAD SOME RETALIATION YESTERDAY. WE FACE AN EXTREMELY DELICATE SITUATION ON THE PRESIDENT'S ACTION AGAINST THE JAPANESE. JAPAN HAS FAILED TO LIVE UP TO THE SEMICONDUCTOR AGREEMENT ON COMPUTER CHIPS. WE HAVE A DOMESTIC CHIP INDUSTRY IN TROUBLE AND HAVE EVERY RIGHT TO EXPECT THAT THE JAPANESE QUIT PREDATORY PRICING WHEREVER IT OCCURS AND THAT THEY STICK TO AGREEMENTS THEY MAKE WITH US.

THE PRESIDENT HAS REACHED THIS DECISION AFTER A ASSESSMENT OF ALL RAMIFICATIONS OF THE CONSEQUENCES, PRESUMABLY INCLUDING A JUDGMENT ON THE LIKELIHOOD THAT THE ACTION MIGHT HAVE ON $5.1 BILLION SOLD TO JAPAN BY THE AMERICAN FARMER LAST YEAR.

THE IMPORTANT POINT TO REALIZE, HOWEVER, IS THAT THIS IS THE PRESIDENT S DECISION. IT WAS NOT TAKEN ACCORDING TO SOME PRE-SET FORMULA OR BECAUSE OF A TRADE POLICY RUNNING ON AUTOMATIC PILOT.

YET THIS IS PRECISELY THE TRADE POLICY CONTAINED IN SOME ASPECTS OF THE TRADE BILL RECENTLY APPROVED BY THE WAYS AND MEANS COMMITTEE.

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MR. CHAIRMAN, TRADE POLICY BY FORMULA IS REALLY A SUBSTITUTE FOR THE HARD DECISIONS NEEDED IN INTERNATIONAL TRADE. IT IS NOT ONLY UNWORKABLE IT IS DANGEROUS. IT GREATLY INCREASES THE RISK OF HARMING MAJOR EXPORTERS LIKE AGRICULTURE

THE QUESTION ISN'T BETWEEN A RISK FREE AND RISK FILLED FARM EXPORT MARKET ENVIRONMENT. WE DON T HAVE A RISK FREE TRADE POLICY NOW LOOK AT OUR TROUBLE WITH THE KOREANS WHO BAN BEEF SHIPMENTS COMPLETELY OR THE E.C. THREATENING TO ALL BUT BAN THEM FOR ALLEGEDLY SCIENTIFIC REASONS.

THE ISSUE IS WHETHER THIS BILL WILL UNACCEPTABLY INCREASE THE RISKS FOR OUR ACCESS TO MAJOR FARM EXPORT MARKETS AT A TIME OF ALREADY DEPRESSED EXPORTS. MY OPINION IS THAT IT WILL.

UNDER SOME PROVISIONS IN THIS BILL, WE WON'T HAVE EFFECTIVE JUDGMENTS ON THE RISKS AND BENEFITS OF RETALIATION. RATHER SOME SECTIONS OF THE BILL DICTATE DECISIONS IN ADVANCE WITHOUT EFFECTIVE REGARD TO THE FALLOUT FOR MAJOR EXPORTERS LIKE THE AMERICAN FARMER.

I WORKED WITH A NUMBER OF FARM GROUPS AND DEVELOPED SOME AMENDMENTS TO ENSURE THAT AGRICULTURE'S INTERESTS ARE PRESERVED IN THE FACE OF THE NEW "FORMULA TRADE POLICY" LAID OUT IN THE BILL. THE AMENDMENTS WEREN'T ACCEPTED.

PROPONENTS OF CERTAIN PROVISIONS CLAIM THAT THEY CARRY NO ADDED RISKS FOR AGRICULTURE EXPORTS I THOUGHT THAT WAS GREAT AND PREPARED TO ANNOUNCE THE ADOPTION OF MY AMENDMENTS.

I ASSUMED THE AMENDMENTS WOULD BE ACCEPTABLE BECAUSE I REASONED THAT IF THERE WERE NO ADDED RISKS TO MAJOR EXPORTERS LIKE AGRICULTURE FROM THE BILL AS IT IS ADVERTISED, THEN LANGUAGE ONLY EFFECTIVE IF SUCH RISKS MATERIALIZE SHOULD BE AGREEABLE TO ALL.

WITH THEIR REJECTION, MY SUSPICIONS OVER WHAT THIS BILL HOLDS FOR THE AMERICAN FARMER HAS GROWN.

CONSIDER THAT IN THE MARKETS AGAINST WHICH SOME PROVISIONS OF THIS BILL ARE AIMED, FARM EXPORTS MAKE UP SOME OF THE HIGHEST PROPORTIONS OF TOTAL U.S. EXPORTS. AGRICULTURE HAS THE MOST EXPOSURE AND THUS THE MOST TO LOSE IN ANY TRADE COMBAT.

FOR JAPAN, KOREA AND TAIWAN, FULLY 22% OF OUR EXPORTS ARE FARM RELATED. FOR THE E.C. ITS 13%. TOGETHER, OUT OF TOTAL EXPORTS OF $84 BILLION IN TO THESE TARGETED COUNTRIES, $14 BILLION OR ABOUT 17% ARE FOR FARMERS.

THE TRADE BILL CONTAINS A VERSION OF THE GEPHARDT AMENDMENT ALSO CALLED THE "EXCESSIVE TRADE DEFICIT REDUCTION PROVISION" REQUIRING SWEEPING ACROSS-THE-BOARD REDUCTIONS AGAINST THESE TOP FARM CUSTOMERS.

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THIS PROVISION ORDERS RETALIATION WHICH CAN'T BE WAIVED BY THIS OR ANY OTHER PRESIDENT THE TEST FOR A WAIVER IS WHETHER SUCH AMERICAN RETALIATION WILL DO SUBSTANTIAL HARM TO THE NATIONAL ECONOMIC INTEREST EVEN IF ALL $14 BILLION IN FARM SALES TO THE TARGETED COUNTRIES WENT DOWN THE TUBES, I DOUBT THE WAIVER WOULD KICK IN I DOUBT THE LOSS OF $14 BILLION FROM A $4.2 TRILLION ECONOMY COULD BE CONSIDERED SUBSTANTIAL. THE FACT IT MIGHT EVEN BE A CLOSE CALL OUGHT TO SEND SHIVERS DOWN THE BACKS OF THOSE INTERESTED IN OVERSEAS FARM MARKETS.

THE STOCK MARKET DROPPED OVER 55 POINTS WORTH $66 BILLION AFTER YESTERDAY'S RETALIATION AGAINST JAPAN ON COMPUTER CHIPS. RETALIATION IS EXPENSIVE. IN THIS INSTANCE IT MAY BE JUSTIFIED TO INSTILL SOME SANITY TO THE MINDLESS UNFAIR TRADE PRACTICES OF JAPAN.

HOWEVER, UNDER THE MODIFIED GEPHARDT PROVISIONS, THIS AND MANY OTHER RETALIATORY ACTIONS WOULD BE SET IN MOTION WITHOUT THE PRESIDENT BEING ABLE TO EFFECTIVELY EVALUATE AND ACT ON THE COSTS AND BENEFITS OF THEM.

ONE OF THE POSITIVE PROVISIONS OF THIS TRADE BILL FOR AGRICULTURE IS THE CONTINUATION OF NEGOTIATING AUTHORITY FOR THE G A T T. ROUND. A SUCCESSFUL G A.T T. ROUND IS DESPERATELY NEEDED TO REDUCE WORLD FARM EXPORT SUBSIDIES THAT HAVE CRUSHED PRICES. EVEN THE PROSPECTS FOR SUCH A ROUND ARE UNDERMINED BY THIS BILL BECAUSE IT DIRECTS WE TAKE G.A.T.T. ILLEGAL ACTIONS WE CAN T GO IN ARGUING FOR FAIRER TRADE RULES WHILE VIOLATING THE CURRENT ONES.

ONE OF MY AMENDMENTS, ALSO SUPPORTED BY A NUMBER OF FARM GROUPS MERELY SAID THAT ACTIONS TAKEN UNDER THE MODIFIED GEPHARDT PROVISIONS MUST BE CONSISTENT WITH OUR INTERNATIONAL OBLIGATIONS. THIS WAS REJECTED THAT SAYS A LOT ABOUT THE LEGALITY OF THIS MODIFIED GEPHARDT AMENDMENT.

THE PROPOSED CHANGES TO SECTION 201 ARE ALSO POTENTIALLY DAMAGING TO OVERSEAS FARM SALES. SECTION 201 PROVIDES IMPORT RELIEF PROTECTION FROM IMPORTS THAT ARE FAIRLY TRADED GOODS THAT ARE NOT SUBSIDIZED OR DUMPED. THIS TRADE BILL EXPANDS THE USE OF THIS DEVICE IN RESPONSE, TRADING PARTNERS ARE LIKELY TO RETALIATION BY CUTTING AMERICAN FARM PURCHASES OR DEMAND LEGALLY SANCTIONED COMPENSATION.

MY AMENDMENT TO THAT SECTION WOULD HAVE STRUCK THE PROPOSED AMBIGUOUS WAIVER AND RETAIN THE CURRENT, MORE REASONED NATIONAL ECONOMIC INTEREST WAIVER. THIS MODEST PROPOSAL, ALSO SUPPORTED BY AGRICULTURAL GROUPS, WAS REJECTED.

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SECTION 301 IS THE ONLY TRADE LAW DESIGNED TO OPEN MARKETS. THE BILL REQUIRES MANDATORY RETALIATION UNDER IT. IT COULD CHANGE SECTION 301 FROM A NEGOTIATING TO A RETALIATION STATUTE. ANOTHER AMENDMENT I OFFERED TO ENSURE AGAIN THAT AGRICULTURE ISN'T SACRIFICED DURING MANDATORY RETALIATION WAS REJECTED.

MR. CHAIRMAN, THERE ARE POSITIVE AND NEEDED PROVISIONS IN THIS TRADE BILL FOR AGRICULTURE. HOWEVER, THERE ARE DANGEROUS AND RATHER BIZARRE PROVISIONS AS WELL. SUCH PROVISIONS HAVE THE POTENTIAL TO DO GREAT DAMAGE TO OUR FARM EXPORTS. THEY MUST BE TAKEN OUT.

AS OUR DISPUTES WITH THE E.C., JAPAN AND KOREA ON BEEF AND OTHER AG EXPORTS SUGGEST, WE ALREADY HAVE MAJOR TRADE PROBLEMS IN SELLING OUR GOODS OVERSEAS. THE LAST THING AG NEEDS NOW IS A TRADE BILL LIABLE TO RESULT IN MORE COMPLICATIONS WITH OUR CUSTOMERS AND LESS FARM SALES.

A LIMPING FARM ECONOMY DOES NOT NEED TO BE USED AS CANNON FODDER FOR THE TRADE WARS CREATED BY SOME PROVISIONS IN THIS LEGISLATION.

THERE WILL BE A LOT OF WHEELING AND DEALING IN THE RULES COMMITTEE AND THE CONFERENCE COMMITTEE ON THIS BILL. ALTHOUGH THESE PROVISIONS FALL OUTSIDE OF THE JURISDICTION OF THE AGRICULTURE COMMITTEE, IF FARM STATE MEMBERS AND THE FARM COMMUNITY SCREAMS LOUD ENOUGH ABOUT THESE MORE BIZARRE PROVISIONS, THERE IS A GOOD CHANCE OF STRIPPING THEM FROM THE BILL. WE WOULD THEN END UP WITH IMPORTANT AND USEFUL TRADE LAW REFORM.

I HOPE THAT MEMBERS OF THIS COMMITTEE WILL PUSH FOR SUCH CHANGES IN THESE PROVISIONS BY LETTING FOLKS KNOW OF THE SERIOUS DANGERS AGRICULTURE SEES IN THEM.

I THANK THE SUBCOMMITTEE AND YOU MR. CHAIRMAN FOR YOUR ATTENTION.

(Attachments follow:)

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National Association of Wheat Growers
415 Second Street, N.E., Suite 300, Washington, D.C. 20002, (202) 547-7800

March 18, 1987

Dear Ways and Means Committee Member:

The undersigned groups are concerned that some provisions of legislation pending before the Committee could inadvertently damage American agricultural exports. Specifically, we are concerned about provisions in the substitute for H.R. 3 which would mandate retaliation against nations that run so-called "excessive and unwarranted" trade surpluses with the U.S., and restrict Presidential discretion to act under Sections 201 and 301.

We believe these provisions could result in declining U.S. farm exports, both through retaliation by our overseas customers and through reduced levels of economic activity that would restrict demand. We note that virtually all the nations likely to be targeted as having "excessive and unwarranted" trade surpluses are major purchasers of U.S. agricultural products.

We urge you to support amendments expected to be offered by Rep. Hal Daub that would avoid mandatory retaliation or protection if such actions would likely cause a significant decline in U.S. agricultural exports to the affected country, or would be inconsistent with U.S. obligations under GATT. We believe such amendments will ensure that H.R. 3 avoids doing harm to U.S. agriculture by unintentionally reducing export sales.

Sincerely,

National Association of Wheat Growers
National Corn Growers Association
American Farm Bureau Federation
National Grange
American Soybean Association

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Individually addressed to all Senators and Representatives.

American Farm Bureau Federation

WASHINGTON OFFICE
600 MARYLAND AVE., S.W.
SUITE 8
W. D.C. 20024
AREA CODE 202 - 484-2222

March 12, 1987

The Honorable
United States Senate
Washington, DC 20510

Dear

This year, you will cast votes crucial to the future competitiveness of the United States. The shape of this year's trade legislation is likely to profoundly affect the economic history of the remainder of the 20th century -- and beyond.

This is especially true for American agriculture. The agricultural industry -- farmers, ranchers and related agribusiness -- is committed to exporting. For some major crops like wheat, soybeans, rice and cotton, over half of annual production is shipped overseas. The agricultural sector is still in a severe recession, and if there is to be any hope of recovery, we will have to sell more commodities abroad. There is simply no other way.

All American businessmen, including agricultural producers, need equitable laws on the books to protect their rights in international trade. It is appropriate, at a time of $170 billion trade deficits, to revisit these laws and improve them. We commend the Congress for its interest in trade, and ask that you insist on ...

* Vigorous enforcement of U.S. trading rights around the world. At times, this and other Administrations have allowed foreign policy to turn trade into an afterthought;

* Aggressive pursuit of market opportunities in all countries, including reform of laws that hinder U.S. exports and removal of barriers to sales of U.S. goods abroad; and

* Tough dealing to remove foreign export subsidies. At times, U.S. negotiatators have been outfoxed and outdealt.

We hope you will subject all trade legislation to this test: Will it increase U.S. exports and competitive opportunities? If legislation does not make the United States more competitive, it does not deserve your support. But a trade bill that expands markets, that broadens the horizons of U.S. trade -- such a bill can be very good for America. Specifically, we hope you will support legislation that ...

* Provides flexible but clearly delineated authority to negotiate in the new GATT round, setting out firm parameters

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for conducting negotiations and mandating more timely and effective consultation with Congress and the private sector;

* Sets reasonable time limits for action in Section 301 unfair trade cases, and allows reciprocal trade opportunities to be a factor in such cases; and

* Recognizes the need for coordinated international efforts to resolve the Third World debt crisis, one of the largest single factors behind the U.S. trade deficit inasmuch as it encourages debt-driven exports and gives debtor countries an incentive to curb imports of U.S. goods.

Among proposals aimed directly at U.S. agricultural competiveness, we believe the following are particularly important:

* An increase in personnel and market development funding for the Foreign Agricultural Service of USDA;

* An increase in levels of food aid as a vital part of U.S. foreign and trade policy and greater coordination of aid and trade through creative initiatives;

* As a negotiating goal in the Uruguay Round, increased access for U.S. agricultural commodities to foreign markets and an end to trade-distorting practices of our competitors; and

* A U.S. policy to encourage multilateral loans directed not at increased production of agricultural commodities already in surplus world-wide, but at projects that will be of more long-term benefit to both U.S. and the developing country interests.

We also feel a few actions should be carefully avoided in trade legislation, among them ...

* Proposals to require retaliation against countries deemed to have excessive bilateral trade surpluses with the United States. Almost all the countries so identified are major purchasers of U.S. agricultural commodities; and

* Proposals to place undue limits on Presidential discretion to make decisions on Section 201 and 301 cases. It seems clear that the President can take into account the national economic interest in a way that bodies with a more limited jurisdiction, like the International Trade Commission, cannot.

U.S. agriculture has a vital interest in an assertive trade policy. Unfortunately, this country has often suffered from the lack

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of precisely such a policy. Agriculture is likely to be the first victim of protectionism, not only because of retaliation against our exports, but also because declining world economic growth, which is protectionism's predictable result, will severely limit any growth in demand for U.S. farm exports. We therefore urge you to pass a bill that increases U.S. competitiveness -- a bill that will make world trade more open and fair, not less.

Sincerely,

American Farm Bureau Federation
American Soybean Association
Millers' National Federation
National Association of Wheat Growers
National Cattlemen's Association
National Corn Growers Association
National Grange
National Pork Producers Council
National Soybean Processors Association
Rice Millers' Association

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HON. ROBERT F. (BOB) SMITH (OR)
REMARKS: LAMB AND LIVE LAMB IMPORTS
March 31, 1987

In 1964, the 88th Congress established meat import quotas on certain meat products, specifically beef, veal and mutton, as an amendment to an act dealing with importation of wild animals. Lamb imports at that time were so low — one to 2.5 percent of domestic production — that lamb was left out of conference committee actions. At that time, it was referred to as "non-competitive".

There was, however, evidence demonstrates that lamb would have been included had it been perceived as the basis for a a competitive problem similar to beef in the future. I think we've reached that point. Today, I'm asking this Committee to recommend that lamb be added to the coverage of the Meat Import Act of 1979 through amendments to H.R. 3. Allow me to explain.

Today, the "non-competitive" nature of lamb imports is a different story. In 1986, lamb imports totaled 36 million pounds or 10.9-percent of domestic production. Right now, the potential exists for massive shipments of live lambs in addition to increased imports of chilled and fresh frozen lamb. New estimates for 1987 imports show potential increase ranging to 16-percent.

The situation which brings me to the table today is a plan which many of you are aware that today a plan is in motion to import 200,000 live feeder lambs from New Zealand. The import request has designated Portland, Oregon, as the port of entry. Each shipment will consist of 27,000 lambs.

I see problems ahead. There can be no other realistic expectations from the quarantine holding of 27,000 at a time so close to the middle of the city. The Animal and Plant Health Inspection Service has given a list of requirements that must be met before issuing a permit, and its already having difficulty finding the capability for incineration of a 100 sheep per week loss rate.

But Portland won't be alone in its problems. The addition of 200,000 live feeder lambs into the U.S. market this year will severely impact lamb prices and farm income in my home state of Oregon, in Texas and and throughout the U.S.

Worse yet, this is not necessarily a once-in-a-lifetime problem. New Zealand exports 950,000 lambs every year. We're feeling the impact of only the uncommitted section of that total. I think we need to realize that we may be setting a precedent now which could have a damaging potential for a large number of live lambs coming into the U. S. every year.

In 1978, the 1964 Act was amended and redesignated The Meat Import Act. The principal change involved the addition of a modified method for establishing meat import levels under the Act, a countercyclical formula intended to encourage imports when domestic production is low and impose restrictions when domestic supply is high.

In keeping with the spirit of that act and, specifically in keeping with the spirit of the countercyclical formula, I am asking that this Committee (on Agriculture) recommend to the Ways and Means Committee considering H.R. 3, a technical amendment be added to the Title 6 of the trade bill which would add lamb to the coverage already provided in the Meat Import Act of 1979.

Gentelmen, this action would not stop the current import. It isn't an attempt to intervene in free enterprise. But it can serve us in the future — as a windbreak against economy-devastating imports which threaten the logic and the intent of that countercyclical formula.

I urge you to join me in approving it. Thank you.

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Statement of the Honorable Beryl Anthony, Jr.

Before the House Committee on Agriculture

March 31, 1987

Mr. Chairman, it is an honor to appear before you today in my capacity as a past member of the National Commission on Agricultural Trade and Export Policy. During its 18-month tenure, the Commission worked hard to provide this Committee with a comprehensive program for reform of our current agricultural trade laws and practices, towards the achievement of expanded U.S. farm exports and a more equitable international trading environment. I am here today -- as others have been before you in the past -- to attempt to ensure that the Commission's efforts do not go for naught. As a member of the Ways and Means Committee, I can assure you that the Commission's recommendations were a powerful element in the trade deliberation of that Committee, which were only recently concluded. I urge your Committee now to similarly weigh the Commission's work as you proceed towards developing legislation to be included in this year's omnibus trade package.

AGRICULTURAL COMPETITIVENESS:

Competitiveness is the byword of debate in this year's effort to craft a more effective and responsive trade policy for our Nation. On the agricultural front, the 1985 Farm bill provided the Administration with many new tools to achieve this objective. The trade bill provides yet another avenue and an historic avenue at that -- an opportunity to establish an agenda for agricultural trade that will certainly last the several years it will take to complete the current round of GATT negotiations, but perhaps also an

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opportunity, to go beyond even that outcome, to determine our Nation's agricultural trade policy into the next century. It is a daunting prospect. However, the Commission's work has laid important groundwork which, if fully implemented can, I believe, assure a future that is better adapted to the achievement of U.S. agricultural competitiveness, for the benefit of our Nation's farmers, agribusiness and our citizenry at large.

I will limit my remarks today to two elements of the overall agricultural trade situation which I am confident can be actionable this year 1) market-development and 2) improved internal government coordination of agricultural trade policy. From a political perspective, these are not perhaps the most obvious considerations. They haven't the aura of domestic agricultural policy changes. They do not excite the mind like strong language on trade relations with our leading competitors and customers. They do not require major new commitments of resources. They are nevertheless the bedrock of everything else we do this year to improve our nation's ability to compete in world markets for agricultural commodities and products. Without adequate attention to long-term foreign market development, any successes we may have in wresting immediate incentive to trade, whether credits, enhancements, or changes in domestic agricultural policy, may be short-lived. We compete against governments; there is no free market for agricultural commodities and products. We must be prepared to meet our competitors with an equal commitment; and then do even more. The experience of the Commission indicates that our competitors are much more active in promoting new markets for the agricultural commodities and products than we have been. If we are serious about improving our trade position in world markets, we cannot afford to let our own market development activities lapse -- indeed, if possible, they must be expanded.

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The same is true for an improved coordination of agricultural trade policy within our government. Agriculture seldom receives the attention it deserves in the highest councils of government. This also is a problem that must be confronted, and can be confronted in this year's trade bill. Some improvement in this area will go far to ensure that government policy toward agriculture on trade matters is more consistent and predictable.

BETTER MARKET DEVELOPMENT POLICY:

The U.S. government must at a minimum maintain, but preferably expand, current programs designed to build-in future worldwide demands for U.S. agricultural commodities and products. The Commission has recommended future funding of such programs be set at levels no less than that contained in the 1985 Farm Act. It is my belief that they should be funded at even a higher level. FAS has seen a reduction in staff-years of 10% since 1981; this despite substantial increases in its mandate and responsibilities. These staff years should be restored. In addition, market development activities overall have suffered as a result of a failure to keep pace with the funding needs of such programs. Again, these programs need to be brought up to par with the expectations Congress has placed on them. The Commission has a host of recommendations in regard to the better management and support of agricultural market development which it can lay before the Committee.

Action of this sort will inevitably require some modification in current policy. For one thing, foreign assistance programs of the U.S. government need to be better geared to the achievement of direct agricultural foreign market development. Insufficient attention is presently accorded this objective in food aid and technical assistance programs. Furthermore, the Commission was

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tremendously disturbed by reports of practices of U.S. foreign assistance agencies which clearly were prejudicial to U.S. agricultural interests. A thoroughgoing market development strategy should be part of this year's trade bill, and greater resources provided to such programs, including the use of surplus commodities and products where practicable.

BETTER COORDINATION OF AGRICULTURAL TRADE POLICY:

If the U.S. is to maintain a leadership role in agricultural trade, it is concerned that progress in this area will inevitably be eroded in the absence of reform of our own internal government decision-making process affecting agricultural trade. Recent history is replete with examples of U.S. policy that has emerged from the inter-agency process in stark conflict with U.S. agricultural interests. Agriculture has not been accorded sufficient weight in the highest councils of government. To rectify this, the Commission has proposed sweeping changes in the manner in which current trade policy is developed, according the Secretary of Agriculture greater leadership in matters of trade. This reorganization proposal has received substantial attention. It has been criticized. However, the Commission feels strongly that there must be some effort to reform the current process. Simple exhortations calling for greater cooperation between agencies alone cannot solve this problem. The system of decision making must be redesigned to ensure that agriculture is elevated as a factor in the entire process.

The system must also be made more accountable to Congress and to the agricultural community in matters of trade policy. To achieve this, the Commission recommends that USDA be required to annually prepare Long Term

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Agricult l Trade Strategy reports for review by the Congress. Agricultural trade policy, as it currently emerges from the inter-agency process, is shortsighted and ad hoc. Greater long term planning capabilities must be built into the system. The Commission's recommendation in this regard ensures both greater consistency and accountability in matters of agricultural trade policy. While the proposal can be dismissed from the agency perspective as simply yet another reporting requirement, its utility both to Congress and the agricultural community could be great. Congress and the agricultural community need to know that the long term objectives of US. trade policies are: what programs and resources are to be used; where emphasis will be placed; where markets will be sought. USDA should perform this service. Current information is insufficient. Bureaucracies have an aversion to reporting requirements of any kind. However, the Commission believes that if USDA reported more, it would have to explain less.

CONCLUSION:

I have briefly summarized some of the major recommendations of the Commission. Many more detailed proposals are contained in the volumes before you. Some are contained in H.R. 3 and in other legislative vehicles in the House and Senate. The members of the Commission were proud to serve the Congress in preparing its Report. It now urges the Congress to carefully consider its many ideas, as you prepare to engage in the process of developing omnibus trade legislation. That process begins here. On behalf of the Commission, I again thank you for the opportunity to place these views before you.

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United States General Accounting Office

GAO Testimony

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Agricultural Trade Legislation: Title VI, H.R.3

Statement of
Allan I. Mendelowitz
Senior Associate Director
National Security and International
Affairs Division

Before the

House Committee on Agriculture

T-NSIAD-87-24

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Mr. Chairman and Members of the Committee:

We are pleased to be here today to discuss with you our views on Title VI of H.R.3, the agricultural trade title of the Trade and International Economic Policy Reform Act of 1987.

The proposed Title VI would significantly restructure and reorient the U.S. Department of Agriculture in its management of agricultural trade. It is derived principally from the final report of the National Commission on Agricultural Trade and Export Policy, which concluded in July 1986 that agricultural trade policy and programs should be given a higher priority, both within and outside the Department of Agriculture and that the Department should be reorganized to reflect that priority.

We agree with the general thrust of the Commission's conclusion, but the recommended reorganization embodied in H.R.3 Title VI may be more extensive than necessary to achieve the desired objectives. Because of its comprehensive nature, Title VI will affect many agencies, interest groups, and U.S. policies, raising valid questions about its practicality and desirability. We believe that many of the Commission's concerns as embodied in Title VI can be adequately addressed within the existing agricultural trade organization structure. The reorganization proposed in this legislation, at least in the short term could create significant confusion and detract from, rather than enhance, U.S. agricultural trade competitiveness. We believe that the objective of the Commission's final conclusions can be met through

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a series of adjustments within the existing organizational framework.

PROPOSED ORGANIZATIONAL CHANGES

We would now like to address some of the more prominent features of the proposed legislation. It is unclear whether designation of the Department of Agriculture as lead agency within the executive branch for agricultural trade and trade policy will cause higher priority to be given to these areas. The Secretary is currently a member of the cabinet-level Economic Policy Council and the Trade Negotiating Committee. The Under Secretary of Agriculture for International Affairs and Commodity Programs is a member of the Trade Policy Review Group, and a senior departmental official represents Agriculture on the Trade Policy Staff Committee.

It is also important to note that the Secretary and Under Secretary played important roles in recent agricultural trade bilateral negotiations with the European Community and other major agricultural competitors. Furthermore, during the September 1986 GATT ministerial meeting which launched the Uruguay round of multilateral trade negotiations, the Secretary of Agriculture conducted the negotiations on agriculture trade and agricultural trade interests received a high priority. Therefore, we believe that designating the Department of Agriculture as lead agency for agricultural trade and trade policy matters is unnecessary. Furthermore, there are situations where it would be inappropriate

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for the Department to be lead agency when other domestic and foreign policy considerations might have equal or greater priority.

The Secretary of Agriculture, through the existing interagency process, has an appropriate and viable mechanism for coordinating agricultural trade related programs. Therefore, a new vehicle for interagency consultation as called for in the legislation is not necessary.

We believe the proposed transfer of the International Economic Division of the Economic Research Service (ERS) and the World Outlook Board of the Department of Agriculture to the Department's Foreign Agricultural Service (FAS) would not be desirable. Although it is clear that FAS needs more analytical capability and that there is little or no communication or coordination between the International Economic Division and the FAS at this time, transferring the Division and its 178 staff years and $7.8-million budget is not the best way to remedy the problem. It should be noted that a reorganization is currently underway within the ERS that will terminate the International Economic Division and place its resources in two other units, the Commodity Economics Division and the Agriculture and Trade Analysis Division.

Transferring the international economic analysis functions of the ERS would seriously affect its ability and that of the Assistant Secretary of Agriculture for Economics to conduct integrated, long-term, and independent economic research on international agriculture. It would also further undermine ERS' capability to make global commodity estimates and forecasts. The

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programmatic orientation of FAS could also compromise the independence of ERS' international analysts and could result in self-serving assessments of international agricultural issues, which would contradict the basic rationale for the transfer.

Clearly, a closer working relationship between ERS and FAS is necessary. An improved working relationship between the two within the existing organizational framework would be a preferred course of action. FAS could use the analytical capability of the ERS international staff while at the same time preserving ERS' independence.

The proposed replacement of the current Under Secretary of Agriculture for International Affairs and Commodity Programs with two Under Secretaries, one for trade and international affairs and the other for commodity programs, severs a critical natural link between international and domestic programs that is served by having one Under Secretary responsible for such interrelated areas. The events of recent years attest to the importance of the relationship between domestic and international agricultural issues and the need to have a single authority responsible for both within the Department. Separation of responsibility for trade and domestic commodity programs could create new policy and program coordination problems.

The creation of two additional Assistant Secretaries to assist the proposed Under Secretary of Trade and Under Secretary for Commodity Programs creates an additional level to the existing

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hierarchy and appears to conflict with the objective of improving the effectiveness and efficiency of the decision-making process.

The proposed establishment of a General Sales Manager's Office, under the Under Secretary for Trade, with responsibilities for export sales, market development, agricultural trade offices, and Public Law 480 Titles I and III seems unnecessary in light of the fact that the current General Sales Manager, who also has the title of Associate Administrator of FAS, already has responsibility for managing these programs within the existing FAS organizational structure. A 1979 Directive of the Secretary of Agriculture provides for the General Sales Manager to report directly to the Secretary, through the Under Secretary for International Affairs and Commodity Programs, on policy matters related to Commodity Credit Corporation and Public Law 480 programs. That same directive authorizes the General Sales Manager to report to the Administrator of FAS on policy matters related to market development programs.

The 1985 Food Security Act requires the Secretary of Agriculture to report to the Congress on other countries' programs that provide direct or indirect support for agricultural exports and that impede the entry of U.S. agricultural exports. This report is also to identify U.S. agricultural export opportunities. Title VI proposes the establishment of an office to continuously monitor the trade practices of foreign competitors and to report quarterly to the Secretary, who would in turn report to the Congress. The Secretary's report to the Congress would include

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findings and recommendations with respect to the level of subsidies provided by other nations and the United States to promote the export of agricultural commodities. We believe it is unnecessary to establish a separate office to monitor and report on such matters. The current reporting practices could easily be modified to incorporate findings and recommendations as provided for in Title VI.

The provision in Title VI of H.R. 3 that the Secretary provide technical assistance to the U.S. Trade Representative on agricultural trade issues and negotiations seems unnecessary, given the assistance which the Secretary already provides through the existing interagency system with the help of FAS.

We believe that establishing an Office of Agricultural Trade Policy Planning and Evaluation, responsible for developing effective agricultural trade strategies and reporting annually to the Congress could serve a useful purpose. It should be assisted by the international staff of ERS and its evaluation function should include periodically assessing all U.S. agricultural export programs, and the Department should ensure the evaluations are objective and independent.

We also support the proposed declaration of policy concerning food aid and market development and the establishment of an Office of Food Aid Policy within Agriculture. Food aid and agricultural export programs need to be coordinated more effectively.

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PROPOSED USE OF SURPLUS COMMODITIES FOR COOPERATOR PROGRAM

In Title VI, the proposed use of Commodity Credit Corporation (CCC) commodities by cooperators for projects designed to expand markets for U.S. agricultural commodities raises some questions. There are limitations to the use of these commodities and it is unclear how many cooperators could participate in such projects, how cooperators would qualify to participate, and how commodities would be allocated among cooperators. Furthermore, if the definition of "commodities" is expanded to include "generic certificates," then additional questions must be raised concerning the use of the certificates by cooperators for market development activities.

Under the current Targeted Export Assistance (TEA) program, generic certificate holders are selling the certificates for greater than face value and there are some preliminary indications that not all premiums are being used for approved market development activities. In our recent review of generic certificates, we found that certificates were being sold for premiums of 10 to 15 percent.

PROPOSED CHANGES IN EXPORT ENHANCEMENT PROGRAM

Title VI of H.R.3 would amend Section 1127(b) of the Food Security Act of 1985 to read that the Secretary of Agriculture shall give priority to all interested foreign purchasers who have traditionally purchased U.S. agricultural commodities or continue or begin to purchase such commodities in quantities equal or greater than those of a previous period. It should be noted that

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similar language in the Food Security Act may appear to give the Secretary of Agriculture more discretion, stating that the Secretary shall consider for participation all interested foreign purchasers, giving priority to those who have traditionally purchased U.S. agricultural commodities and who continue to purchase such commodities on an annual basis in quantities greater than those of a previous representative period.

During our review of the Export Enhancement Program, we found that the Secretary of Agriculture did, in fact, use such discretion. Foreign purchasers who had traditionally purchased U.S. agricultural commodities (such as Japan and Korea in the case of wheat) were not made eligible under the program. One could argue that these were not interested foreign purchasers; i.e., they did not formally petition the Department of Agriculture or the administration to be made eligible (targeted) under the program. It appears that these countries have continued to purchase wheat and other agricultural commodities from the United States, despite higher U.S. prices, in part because of preference for U.S. products but also because of U.S. political leverage. The huge trade imbalances between each of these countries and the United States would have made it difficult for them to ask the United States to subsidize its agricultural exports to them.

Although the Soviet Union failed to purchase 4 million metric tons of wheat from the United States for the year ending September 30, 1985, as required under the Long Term Agreement between the two countries, it had in past years been the largest traditional

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purchaser of U.S. wheat. Nonetheless, the Soviet Union was not targeted under the Export Enhancement Program until August 1, 1986, and then with less attractive terms than those offered to other targeted countries. The Secretary of Agriculture might well have wished to target the Soviet Union earlier, but there was strong opposition from other members of the Economic Policy Council, including the Secretary of State, and from the Secretary of Defense. Clearly, foreign policy concerns and the influence of other agencies limited the Secretary's ability to target this traditional customer.

Although the language in Title VI appears to give the Secretary of Agriculture stronger instructions for targeting traditional customers by eliminating the words "consider for participation," foreign policy concerns and the influence of other agencies probably would continue to play a significant role in determining countries to be targeted under the Export Enhancement Program.

We believe that the Secretary of Agriculture was correct in not targeting traditional customers, such as Japan and Korea, to the extent that they continued to make commercial sales of wheat from the United States without the Export Enhancement Program. To have targeted these countries instead of countries such as Morocco or Algeria, which without the Program clearly would have bought wheat from the European Community, would have been an inefficient and costly use of the bonus commodities available under the Program. To have targeted Japan and Korea, as well as Morocco and

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Algeria, might well have resulted in all bonus commodities available under the program being used up at an early date.

In this regard, Title VI does not change the total value of commodities to be used in implementing the Export Enhancement Program. As amended by the Food Security Improvements Act of 1986, this amount was set at not less than $1 billion nor more than $1.5 billion. Even if the Department of Agriculture uses the market value method, rather than the book value method, it appears that the $1.5 billion will be used if the Program continues at the current pace. We believe that the Congress needs to address the issue of the adequacy of the amount of bonus commodities available under the Program, and it does not do so in Title VI.

BARTER PROGRAM PROVISIONS OF FOOD SECURITY ACT OF 1985

Title VI notes that it is the sense of Congress that the Secretary of Agriculture should expedite the implementation of provisions of the Food Security Act of 1985 relating to the barter of agricultural commodities. During our recently completed review of alternative grain trading practices, we found problems with the implementation of the barter provisions which need to be addressed.

Section 1129 of the Food Security Act had provided for a pilot barter program to be carried out during fiscal years 1986 and 1987 with at least two nations which have food and currency reserve shortages. Surplus CCC commodities were to be bartered for strategic or other materials not produced by the United States in amounts sufficient for its requirements and for which it does not

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meet national stockpile reserves or goals established by law. Normal commercial trade channels were to be used and commercial marketings were not to be disrupted.

Section 1167 of the Food Security Act amended the CCC Charter Act to provide that if the strategic petroleum reserve falls below prescribed levels, and upon request from the Secretary of Energy, the CCC must, to the maximum extent practicable and with approval from the Secretary, make available CCC commodities worth at least $300 million to barter for petroleum products, including crude oil. This section also requires that the Secretary of Agriculture provide technical assistance regarding bartering agricultural commodities and products to U.S. exporters who request such assistance.

As reported to Congress on January 2, 1987, by the Secretary of Agriculture, no agreements had been concluded for the pilot barter program. Agriculture stated in its report that it intended to continue with efforts to initiate substantive discussions with several countries that have food and currency reserve shortages and offer potential for obtaining strategic minerals.

In more recent discussions, Agriculture officials reiterated that the Department could not report any progress on barter initiatives; however, they emphasized their commitment to complete the projects. Complications regarding division of program authority, agency coordination, and reimbursement between federal agencies involved in potential barter transactions have contributed to the lack of action. Additionally, there have been problems in

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identifying the appropriate combination of eligible countries and acceptable commodities. Agriculture officials reported that they had met on several occasions with representatives of Energy and the General Services Administration but have not reached agreement on a means for carrying out the provisions of the law.

ADDITIONAL OBSERVATIONS

Mr. Chairman, although the reductions in loan rates and the new export programs of the Food Security Act of 1985 were designed to increase U.S. agricultural competitiveness, more can be done. Improved management of export promotion and foreign market development activities within the existing structure of FAS would be desirable. More emphasis on market development, better coordination of traditional and newly established export programs and activities, better program evaluation, greater flexibility in the use of agricultural attaches, more emphasis on new markets and value-added commodities, an expanded effort to respond to product quality problems, and the establishment of a broad-based publicly accessible export market development advisory committee appear to be positive responses to increased foreign competition. In addition, it may be necessary to increase funding for trade shows and exhibitions, general management support of export programs, and additional personnel. It is clear that the many new export programs of the 1985 Food Security Act have challenged the adequacy of existing FAS resources.

Mr. Chairman, this concludes my statement. I'll be happy to answer any questions you may have.

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Testimony By

W. M. Harding, President

Central Bank for Cooperatives

Mr. Chairman, my name is Malcolm Harding. I'm president of the Central Bank for Cooperatives (CBC) in Denver, Colorado. The Central Bank is part of the Farm Credit System (System) and is owned by the 12 district Banks for Cooperatives.

I appreciate this opportunity to present testimony to this hearing on U.S. agricultural trade legislation.

I would like to focus my remarks on HR 1298, the Agricultural Trade Financing Act of 1987 which was introduced on February 26 by Congressman Ed Jones of Tennessee.

Let me explain the history that led up to the introduction of HR 1298.

In 1980 this committee played a major role in amending the Farm Credit Act to authorize the Banks for Cooperatives to finance agricultural trade for the benefit of U.S. farmer-owned cooperatives.

It was felt these new authorities would bolster the American farmer's access to foreign markets and help make U.S. farm exports more attractive to foreign purchasers.

However, while there was optimism Banks for Cooperatives international trade financing could be beneficial both to farmers and to the U.S. balance of trade, there was also concern as to whether an international banking function could be successfully developed by the Farm Credit System since the System had no previous experience in this complex area. That concern was shared by members of Congress as well as some leaders within the System.

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Congress established a ten-year sunset limitation whereby the international authorities would expire on September 30, 1990. It was felt this period of time would be ample for the Banks for Cooperatives to succeed or fail in their new challenge.

The 12 district Banks for Cooperatives, rather than develop international banking capabilities individually, chose to place the new authorities with CBC.

The Central Bank hired specialized staff with strong international banking credentials. Very carefully and conservatively, we developed international banking services, and in 1982 the bank made its first loan to a foreign purchaser of cooperative-sourced farm products.

It is important to note the Central Bank provides financing to the foreign purchaser to support trade involving cooperative-sourced commodities. The loans do not go to the domestic exporter.

The Central Bank has financed over $5 billion in U.S. farm exports since 1982. In fact, the bank financed nearly $1.3 billion in farm exports in 1986 alone.

The bank has successfully financed sales to over 25 nations and has established 125 foreign correspondent banking relationships in 48 countries. These banking relationships are vital to the success of Central Bank's international banking services.

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The Banks for Cooperatives established the international banking function without cost to the government. Central Bank provided the startup money, and within three years of its first international loan, the bank began to show positive cash flow from international activities and had recovered the startup costs.

I am pleased to say that, ultimately, cooperatives and their farmer owners are the beneficiaries of Central Bank's earnings. In addition, all farmers benefit from the sale of agricultural products to foreign purchasers.

The Central Bank for Cooperatives has been a major participant in the U.S. Department of Agriculture's export development programs, such as the Commodity Credit Corporation's GSM programs.

Central Bank carefully manages both country risk and borrower risk to minimize loss potential. The bank utilizes to the fullest extent possible the various government guarantee programs, such as CCC's GSM programs. The bank has a country risk analysis unit, and we have carefully managed foreign credit risk.

Through effective use of foreign credit risk management tools, Central Bank has operated for five years without an international loan loss.

There are some who may question why the sunset limitation should be removed in 1987, three years prior to the expiration date.

The reasons are simple. The sunset limitation casts a shadow on the future of the Banks for Cooperatives' international lending program.

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Foreign correspondent banks question Central Bank's long-term commitment to international banking. As loan terms reach toward the sunset date, questions arise about the bank's future in international lending. No other international lender operates with a termination date on its services.

Central Bank and its owners, the district Banks for Cooperatives, are hampered both in long-term planning and staffing. To maintain the bank's high-quality international banking staff, Central Bank must be able to provide some assurance to career-minded specialists. The bank must also be able to develop and discuss long-term marketing plans to be effective in the international arena.

Farmer-owned cooperatives, through the district banks and Central Bank, have a substantial investment of time and money in the international lending program. To eliminate this important function after only eight years of operation would be a loss of both a cooperative investment and a credit source to support U.S. farm exports.

To develop export markets to the fullest extent possible, the American farmer needs tools like Central Bank's international banking services. With no cost to the government, the Banks for Cooperatives have been part of the good news in an otherwise difficult farm export environment.

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I firmly believe the Banks for Cooperatives have proven themselves. Central Bank's international banking services are a success story of which this committee can be proud. We have not prevented the decline in U.S. agricultural exports that occurred in the 1980s. That is a much bigger problem than trade financing. However, we are a positive force working to build markets for American farm products.

It's time to remove the sunset limitation and make the Banks for Cooperatives' international banking function a permanent resource to support exports for the benefit of the American farmer.

Thank you.

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TESTIMONY OF ORVILLE L. FREEMAN

PRESIDENT AND CHIEF EXECUTIVE OFFICER
AGRICULTURE COUNCIL OF AMERICA

before the

COMMITTEE ON AGRICULTURE
U.S. HOUSE OF REPRESENTATIVES

MARCH 31, 1987

Mr. Chairman, I am privileged to appear before this distinguished committee to discuss current legislative proposals dealing with agricultural trade.

The recovery of U.S. agricultural exports, and the consequent recovery of rural America, is the primary thrust of the Agriculture Council of America. We are a unique umbrella organization that cuts across the entire spectrum of the U.S. agricultural industry -- from producers and their suppliers, into transportation and processing, and on to exporters and those who work abroad on economic development and commercial market-building.

I would like the record to show the members of the board of directors of the Agriculture Council of America and the trustees of the Agriculture Council of America Education Foundation. You will note that these boards include five former secretaries of agriculture, the elected leaders of the general farm organizations, top executives of corporations in the private sector (both cooperatives and proprietary firms) and a wide cross-section of leadership from the commodity groups and private voluntary organizations.

To put my testimony in perspective, with your permission, Mr. Chairman, I also would like to submit for the record a policy paper outlining the agricultural export initiative of the Agriculture Council of America.

By way of summary, the export program set forth in this document calls for a more vigorous use of the existing statutory tools and appropriations,

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rather than new legislative initiatives. It presents the perspective, principles and strategy from which we view the specific bills on which you asked us to comment.

The programs developed and carried forward in the late 1950s and the 1960s laid the foundation for the prosperity of the 1970s and early 1980s in rural America. It is useful to remember that those were times, like today, of crop surpluses and under-use of American agricultural capacity.

Those programs combined humanitarian food relief, economic development and commercial market-building and were sometimes called "the action triangle." You will recall, I'm sure, that P.L. 480 incorporated this multiple approach and set it forth in its title: the Agricultural Trade Development and Assistance Act.

In the 1970s, especially in the so-called less-developed countries (LDCs), some of which were moving toward the level of newly industrialized countries (NICs), commercial demand worldwide climbed so rapidly that the so-called surpluses disappeared. Shortage, rather than surplus, dominated the world agenda.

Unfortunately, the "action triangle" thrust of the 1960s lapsed in the 1970s, with the result that the world returned to a surplus position in the 1980s comparable to what I faced as secretary of agriculture in 1961.

The primary thrust of the ACA action program is to carry forward, in the last half of the decade of the 1980s, the multiple programs of humanitarian food relief, economic development and commercial market-building that made possible the increase in U.S. agricultural exports during the 1970s.

The leadership of the Council met last month with Secretary Lyng and Administrator Peter McPherson of the Agency for International Development to review most of the same areas addressed by pending legislation. It was a very encouraging meeting -- one of several recent signals we have had from the

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administration of movement toward more aggressive, creative use of the tools they have, especially surplus commodities, to advance our agricultural exports.

In some areas, particularly the timely programming of overseas projects, we found that part of the problem was one of communication. These two key executives knew a particular matter was a problem, shared our view and general philosophy, thought they had resolved the logjams and were not aware there had been some relapses.

So, we continue to hope that the objectives you seek to accomplish with the refinements of current law in H.R. 1809 will be implemented under the existing discretionary authorities the President, the secretary of agriculture and the AID administrator already have. We believe their movement is in the right direction.

A strong commitment to these goals and personal involvement at the highest levels of the government is a prerequisite to their attainment. Legislation, and any other action the Congress can take to speed this movement along as evidence of its commitment, therefore, is a most welcome development.

In our opinion, H.R. 1809, as introduced by Mr. Panetta, fully and precisely pursues the objectives of the Agriculture Council of America and addresses the particular problems we have discussed with the administration. It adopts the only course proven to be a success: country by country market-building through multiple-purpose plans. It would set reasonable deadlines and goals, loosen up some of the current food-aid strictures and direct attention to the full use of existing programs and resources. This committee, the sponsor and cosponsors and those involved in drafting this bill should be commended for an excellent piece of work.

Export growth will only come with increased purchasing power in developing countries, and this is the sort of focused, coordinated effort we need. The

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Foreign Agricultural Service annual report, "Trade Policies and Market Opportunities for U.S. Farm Exports," lists 32 countries in which increased income would provide additional export volume for U.S. producers. The secretary and administrator should be able to move quickly in selecting those most suitable for these agricultural aid and trade missions.

I would like to raise one point about the criteria for selecting countries to be assigned missions, as spelled out in section 103(c).

It is true that our major new customers in the 1970s were aid clients in the 1950s and 1960s. Without the stimulation of their economies provided by the "action-triangle policy," they would not have become -- and remained -- such significant importers of food and fiber. However, recent studies of the development process and its relation to trade patterns (including U.S. exports) are showing that there are really two groups of countries of special interest to us.

The first are today's "clients" -- closer to a subsistence stage of development, with low per capita incomes. They are our growth markets of the 21st century. Despite all our problems with excess stocks and low prices in the developed countries, we must not forget that -- as the Agriculture Department reported earlier this month -- world food production per person declined last year by 2 percent. They are clearly targets of this bill and rightly so.

The countries in the second group are already customers to varying extents, with middle-level per capita incomes, exploding food demand and great potential for buying from the United States, this year and every year into the next century. These relatively recent "AID graduates" are ineligible for the programs that got them going, but they do have a great need for agricultural-trade credits and help with infrastructure development. Debt financing is absorbing a significant portion of their expenditures; unless we compensate for that, we

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will forfeit some important opportunities for increasing U.S. exports.

We need to go after both those markets. I am sure it is the committee's and the bill's sponsor's intent that those responsible for the programs understand that eligibility "for one or more ...agricultural aid and trade programs" [Section 103(c)(2)] is an expansive term -- meant to embrace resources available to middle-income countries as well as those P.L. 480 programs available only to the poorest nations of the world.

As a final comment on H.R. 1809, I would to add my strong support for all its provisions that call for far greater use of our government-owned commodities as food aid, with part of it to be monetized for economic development projects. That device -- monetization -- is very important. The donated surpluses (or soft loans) are sold inside the country. The local currency that is generated is used to carry forward an economic-development program to help to get a country out of a subsistence economy. There are many, many projects for which we can monetize these commodities -- furthering both the process of development for sustained commercial-market gains and the goal of reducing our stockpiles.

Many provisions of the law call for monetizing commodities in that way, but they are not used aggressively today. The National Commission on Agricultural Trade and Export Policy recommended last year: "Congress should call upon the Administration to restore the proportion of food aid in its foreign economic-aid budget from the current level of 18 percent to one-third of the total of all such assistance, the same proportion of food-aid resources as provided in the period 1968 to 1972."

Monetization is a tailor-made, budget-conscious way to help achieve that objective, and H.R. 1809 should assure that it more effectively used.

Mr. Chairman, you also asked for comment on the agriculture-related titles of H.R. 3 being considered by the Ways and Means Committee, prior to amendments

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that might be proposed by this committee.

I am encouraged to see included at this point in this omnibus trade bill the specific requirements that the impacts on U.S. agriculture and agricultural exports be considered by the President and the U.S. trade representative before taking retaliatory actions or granting import relief. Trade wars help no one, least of all our farmers and ranchers. What we have to lose must be considered as well as what we have to gain.

The bill's negotiating objectives for the GATT talks also seem to steer a strong but pragmatically moderate course. I would hope that course can be maintained as the Congress works its will in this measure.

That concludes my prepared comments, Mr. Chairman. Again, I appreciate very deeply this opportunity to discuss agricultural-trade legislation with this subcommittee and would be happy to respond to your questions.

(Attachments follow:)

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SUBMITTED FOR THE RECORD

Building Commercial Markets: The Key to U.S. Rural Prosperity

By ORVILLE L. FREEMAN

President & Chief Executive Officer, Agriculture Council of America
Chairman of the Board, Agriculture Council of America Education Foundation

---

American agriculture is a production miracle!

Less than 2 percent of our population feeds the American people better and at a lower cost, as a percentage of income, than the farmers and ranchers in any other country in the world. To do this requires only 60 percent of our production capacity, leaving 40 percent available for other uses.

Therein lies the challenge: how do we use this 40 percent humanely and constructively, so that our great agricultural industry, which accounts for 20 percent of our gross national product and employs up to 22 percent of our work force, can prosper?

The Agriculture Council of America export initiative, outlined herein, sets forth an action program designed to meet this challenge of abundance.

The ACA program, vigorously implemented by a working partnership between the private and public sectors, will, we believe, return American agriculture to the prosperity we enjoyed in the seventies, the best years for agriculture in our peacetime history.

The primary thrust of this program is building commercial export markets around the world, country by country. That was done in the late 1950s and throughout the 1960s. The result was strong worldwide demand, followed by good prices in the marketplace.

The American people seem to have forgotten that such systematic conversion of latent demand into commercial markets was what made the decade of the 1970s a golden period for American agriculture.

The farm program for today should once again focus on building demand and, with it, commercial markets. We must update the programs that built the exploding commercial markets that carried farm income to historic peacetime highs in the seventies to meet current conditions and challenges.

Sustained growth in U.S. agricultural exports is absolutely essential revived prosperity on our farms and ranches and in the input-supply and transportation businesses that serve them.

Assuring that kind of growth is -- or should be -- the primary federal farm program for the balance of this decade.

Such a program is neither simple nor a refuge for the lazy or weak-spirited. It takes thought and planning and hard work. Every business in America knows that customer-building, concentrating on demand, is tough.

This approach is far less expensive than the traditional farm programs that concentrate almost exclusively on commodity prices, and its returns are far more solid and substantial. They range across the whole of agriculture, not just grains, feedstuffs and major fibers.

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Careful research continues to prove that, underneath the unusual global weather conditions and macroeconomic forces of the seventies and early eighties, creative, coordinated food-assistance, economic-development and market-building programs — carried forward by the federal government in the late 1950s and throughout the 1960s — laid the groundwork for the exploding markets of the 1970s and early 1980s.

Two major trends must be set in place to achieve sustained growth in U.S. agricultural exports again: total world trade in farm products must be stimulated to grow once again, and U.S. agriculture must be positioned to sell its fair share of the products needed by that growing market.

U.S. agriculture has been positioned to sell into the world market again by the commodity-program provisions of the 1985 Food Security Act. Prices are being taken to competitive world levels, while our agricultural resource base — both producers and their assets — is being held ready by the income-support programs to meet new, and potentially explosive, demand.

But, that aspect is just another expensive federal program feeding on itself unless we act now to set in motion the first trend, restimulating the world market. Initiatives with that objective were also mandated by the 1985 act but have been generally ignored in spirit, if not in terms of the letter of the law.

The drop in the value of U.S. agricultural exports from $43.8 billion in 1981 to $26.3 billion last fiscal year is estimated to have cost the economy of the United States $122 billion and tens of thousands of jobs. The lost sales of $49 billion worth of farm commodities, compared to the 1981 level, are just the tip of this iceberg. The larger part is the shortfall suffered by the rest of agriculture: input suppliers on one side and processors, transporters and marketers on the other.

The latest USDA forecasts project that the macroeconomic forces loose in the international market today will bring about increases in world farm-trade volume of some 3 to 4 percent a year.

That's only the level of increase of the depressed fifties and sixties! We lost that much ground in one quarter during the last trading year. Such a rate of recovery is unnecessarily low. It can be accelerated if the federal government takes seriously and acts vigorously on the policy commitments it made when the President signed the Food Security Act of 1985.

The most sensible, cost-efficient course toward recovery of rural America is a broad, comprehensive, integrated program of economic developmental assistance and commercial-market building, country by country.

Each potential country/customer is different. Each needs to be matched to the best combination from the wide range of public and private resources available in the United States. The product needs to conform to the customer's needs, not vice versa. That's a basic tenet of good salesmanship. U.S. policymakers need to be pushed back to the basics of increasing export-market demand.

Let's apply a little history to this issue for a moment.

American agriculture has had three booms and now three busts in this century. World wars brought or sustained the first two periods of prosperity. Each was followed by two decades of bust.

The supply-oriented research work that coincided with the rapid industrialization of the late 19th century paid off during World War I — the need was there, U.S. agriculture could meet it and rural

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America prospered. Prices collapsed in 1920, two years after the war ended. "Surplus" became the major agricultural policy issue instead of scarcity.

We in agriculture were "bust" for two decades -- until the Second World War demanded, and got, the largest agricultural output in world history. The Marshall Plan, redevelopment of the economies of those we had beaten, helped significantly in putting off another day of reckoning, but bust came again, in the late 1940s and the 1950s. "Surplus" was again the buzzword of American agriculture.

Once again, it was two decades before another boom. From the last half of the sixties to the first half of the seventies, the value of our exports tripled, volume went up by about half, farm income was at its highest levels ever and rural America was alive with growth and excitement.

But, this time there had been no world war. What, then, had been done right to bring about this continuing growth? A lot of macroeconomic factors outside of anyone's control were at play. But, something else was going on at a more fundamental level that was of more lasting importance then and still is.

That third boom was triggered by bad weather and bad crops abroad for a year or two, but it was sustained by the well-planned, thorough and persistent U.S. program of food aid and economic development in the Third World that was underway in the preceding 15 years.

Drafts of a forthcoming study report from USDA on national-development and trade patterns since 1960 show an amazingly stable long-term trend: coordinated food aid and development assistance turned poor countries into rapidly emerging nations, with both strong agricultural production and an explosive demand for foodstuffs from abroad, without long-term competition of consequence for U.S. agriculture as a whole. The effect on U.S. exports was large and positive.

Where there is growth at all in our export markets today, in the world market as a whole, it is in that set of Third World nations we concentrated on in the sixties -- for example, South Korea, Taiwan and Mexico -- that now rank in the upper-middle range of per capita income.

Such programs were allowed to drift during the prosperity of the seventies because many people believed we would never again have significant surpluses, there were too many hungry people in the world. That was a serious mistake. We still have hungry people, we again have surpluses and we have had five years of sharp declines in the export market. The United States clearly must return to demand- and customer-oriented policies or cut back our agricultural capacity by as much as 40 percent and write off a century of technological progress and superior productivity gains.

When John F. Kennedy took office in January 1961, agriculture's underlying problems were not unlike those of the 1980s: under-used capacity and domestic prices that were above the levels of the world market. President Kennedy saw our number-one economic problem as farm income and rural decline. He saw, and was appalled by, the paradox of a world full of food and a world full of hungry people.

His answer, and my charge as secretary of agriculture, was to feed people and build commercial export markets. We refined the Food for Peace program and seriously began to work with it -- country by country, matching the tools it gave us to the developmental needs of the potential buyer, using our surpluses both as food for

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the hungry and as capital to be turned into cash.

That latter device — monetization — is very important. The donated surpluses are sold inside the country. The local currency that is generated is used to carry forward an economic-development program to help to get a country out of a subsistence economy. There are many, many projects for which we can monetize these commodities — furthering both the process of development for sustained commercial-market gains and the goal of reducing our stockpiles.

Many provisions of the law call for monetizing commodities in that way, but they are not used aggressively today. The National Commission on Agricultural Trade and Export Policy recommended last year: "Congress should call upon the Administration to restore the proportion of food aid in its foreign economic-aid budget from the current level of 18 percent to one-third of the total of all such assistance, the same proportion of food-aid resources as provided in the period 1968 to 1972." Monetization is a tailor-made, budget-conscious way to help achieve that goal.

Using such devices, we became competitive in the world market in the sixties. We blocked dumping, although we were unable — then, as now — to do much about the Common Agricultural Policy of the European Community. We tailored our resources to the particular needs and capabilities of each country. We began sales to Iron Curtain countries. We launched the private-sector cooperators program of the Foreign Agricultural Service, to target specific commodities into specific markets. We created demand by helping clients become customers.

In the process, we sold American farm commodities. We took South Korea, Taiwan, Spain, Mexico and others from bare-subsistence economies and minimum food imports to status as billion-dollar markets for U.S. agriculture. Brazil and more than a dozen others are on the same track now.

Korea, an economic basket-case in 1961 with per-capita income of $83, now boasts per-capita income above $2,200 a year. Our 25 years of food aid to Korea cost less than we now get back in a single year of sales to Koreans.

There are many more Korea-type areas out there for American agriculture today.

By 1970, developing and centrally planned countries were taking 34 percent of our exports. By 1980, at the end of the boom, they were taking 49 percent — almost half. Today, despite the downturn and loss of other markets, developing countries alone are expected this year to take 43.5 percent of U.S. agricultural exports. Between 1974 and 1984, food imports by developing countries rose 3 1/2 times faster than agricultural-production increases in those countries and at five times the rate of population growth. (The centrally planned nations come in and out of our markets. The industrialized world is taking less, while becoming both more self-sufficient and more competitive with us.)

When economic development occurs, growing nations import more food. With 75 percent of the world's population, and exploding population growth, those developing countries were the target markets in the 1960s and 1970s. They should once again become our target markets.

In October, market-development experts for seven organizations representing the major export commodities evaluated 62 countries' needs and matched them up against tools available through the 1985 farm bill.

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In 1985, we sold 26.6 million metric tons of grains, soybeans and products to those 62 nations. The study found that full and innovative use of the available programs could have meant an additional 17.4 million tons — 65 percent more — shipped out of U.S. storage and into the market, without displacing either the local producers or our competitors.

Such action would have saved the government hundreds of millions and brought 10 million acres back into production — the key to revitalizing our input-supply industries in the Midwest. And, we would be talking about 16 percent increases in over-all feedgrain-export projections instead of the 4 percent "growth" forecast for our No. 1 export commodity, following a 33 percent 1985-to-1986 drop.

Our current situation can be turned around. We have in the law and in our economic structure the following tools, some with mandatory instructions and some with discretionary authority:

- Foreign economic assistance
- Agricultural commodity assistance
  - P.L. 480 (Food for Peace) & Section 416 - Food and development aid for the low-income countries
  - Intermediate-term Credit - For the newer "A.I.D. graduates" who make up more than half of the 20 countries projected to show significant growth in food imports through the year 2000.
  - Short-term Credit - For newly industrialized countries
  - Export Enhancement & Targeted Export Assistance Programs - To meet unfair competition
  - Surplus commodities - To use as capital (monetization) as well as humanitarian relief.
- Private-sector Expertise
  - Market-development Groups - Partially funded by USDA's Foreign Agricultural Service
  - Private voluntary organizations - The vanguard of humanitarian and developmental-assistance efforts worldwide, partially funded through A.I.D.
  - Export Industries and Investors
- Governmental Expertise Abroad
  - Agricultural Attaches (USDA)
  - Commercial Counselors (Commerce)
  - A.I.D. Missions
- Financial Institutions
  - World Bank
  - International Monetary Fund
  - Export-Import Bank
  - Regional banks, *et alia*

To use those tools effectively, we need plans: comprehensive studies of a particular country's needs and capabilities to match against the available tools. It is extremely important to remember that we cannot come up with just a generic, one-size-fits-all approach to the whole world. To be effective, we must reach out to each country and integrate its situation with our programs and resources.

The Food Security Act enacted in December 1985 mandated a special assistant to the President to identify 15 or more target countries and coordinate the development of such plans, with annual reports to the President and Congress on their progress. The special

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assistant was not appointed until October 1986. So far, movement in the direction of country plans has been slight, at best.

Planning is nothing more than an idle tool without a very strong commitment at the highest levels of the government and private industry to true foreign-market devalopment as the chief farm program of the United States. Only with such commitment will we have uniform, coherent objectives and coordinated operatious in the pursuit of maximum agricultural export expansion.

Tha Agriculture Council of America is a national umbrella organization that cuts across all of American agriculture, with individual and business members from all sectors of the U.S. food and fiber aystam. It is leading the way toward securing a major commitmant in the private sector to build once again an effective partnership with the government in this vital work.

We hope the leadership of both political perties now will bring to life a matching commitment within the government.

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Testimony of
Carl Schwensen
Executive Vice President,
National Association of Wheat Growers
House Committee on Agriculture
March 31, 1987

Mr. Chairman, I am happy to be here to testify on what may be the most crucial legislation before the 100th Congress: H.R. 3, the omnibus trade legislation that will profoundly affect the world climate for agricultural trade.

I am glad this committee is a major player in the debate over H.R.3, because I am confident that uppermost in this committee's mind is expanding exports, not shutting off imports. This committee undertook a historic expansion of the nation's agricultural export programs in 1985, and now has the opportunity to assess and improve those programs.

NAWG would particularly like to urge the committee to take action in the following areas:

- The Export Enhancement Program should be offered more broadly. The language in H.R. 3 accomplishes this purpose, though some refinements may be desireable.

- There should be a more systematic linkage of aid and trade, and one of the best ways to achieve it is through reforms embodied in legislation introduced by Rep. Leon Panetta, to mandate aid and trade missions to developing countries.

- Our large commodity surpluses should be put to constructive use; one way is to increase the amount of commodities utilized under PL 480 and Section 416.

- The Foreign Agricultural Service should be given resources adequate to do its job. FAS is administering 12 new or expanded export programs with 100 fewer staff positions than 10 years ago. We believe an increase in the FAS personnel ceiling to at least 850 is necessary, and would ask your support for a $100 million budget for FAS in 1988, including $9 million to restore the FAS Cooperator Program to its FY1986 level.

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- The committee should encourage greater use of USDA's authority to finance infrastructure projects to improve developing countries' ability to utilize U.S. commodities. Flexibility is needed in implementing this authority, but it seems appropriate at least to require an accounting of how much infrastructure lending USDA has guaranteed within the overall GSM-103 program.

- The committee should consider the implications of on-going U.S.-Canadian free trade negotiations. At present, the Canadian import licensing system permits virtually no U.S. wheat to enter Canada while 170,000 tonnes of Canadian wheat has been imported into the U.S. since August. The U.S. should insist that, as part of any agreement with Canada, the import licensing scheme be abolished; pending that, the U.S. might consider setting up a parallel system of its own. In addition, the committee may want to inquire whether the Canadian government's decision to impose a countervailing duty on U.S. corn export has been taken into account in the negoti tions. The precedent created by this decision -- a precedent which could logically be extended to other feed grains, wheat, rice and cotton -- would make a mockery of a free trade agreement if allowed to stand. We view the Canadian decision as absurd and hope it will be reversed.

Mr. Chairman, I would also like to mention a few aspects of H.R. 3 which, while not directly under this committee's jurisdiction, could profoundly affect U.S. agriculture. There are some positive features of H.R. 3 that should be mentioned -- the concept of time limits in Section 301 unfair trade cases, for example, or the call for the U.S. to encourage other countries to practice supply management in agriculture. But two areas of the bill could hurt farm exports, by causing retaliation and by depressing world economic activity: first, the restrictions on Presidential decision-making authority under Sections 201 and 301 of the 1974 Trade Act; second, the requirement for retaliation against nations with so-called "excessive and unwarranted" trade surpluses. Whether in its original or modified form, the latter provision is very troubling to agriculture, and any final bill which contains it runs a risk of hurting farmers rather than helping them.

Mr. Chairman, thank you for this opportunity to testify. I will be glad to respond to questions.

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Before the

House Committee on Agriculture

With respect to legislative proposals
dealing with agricultural trade

March 31, 1987

LaVern A. Freeh
Land O'Lakes, Inc.
P.O. Box 116
Minneapolis, Minnesota 55440-0116
612/481-2506

Vice President for Public and
International Affairs
Land O'Lakes, Inc.

Land O'Lakes is a food and agricultural supply, processing and marketing cooperative owned by 350,000 farmers in the North Central region of the United States. Its total sales in 1986 were over $2 billion.

Headquartered in Minneapolis, Minnesota, Land O'Lakes is best known for its dairy products, especially its butter. But it is more than just a butter company, selling feed, seed, petroleum, agricultural chemicals and fertilizers to farmers in the North Central region and processing and marketing a broad array of food and feed products in addition to butter throughout the United States and internationally.

The farmers who own Land O'Lakes are primarily located in Minnesota, Wisconsin, Iowa, North and South Dakota, and Nebraska, with additional members in upper Michigan and northeastern Kansas. Most are also members of the more than 1,200 local cooperatives or voting units which are affiliated with Land O'Lakes.

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Testimony by Dr. LaVern A. Freeh, Land O'Lakes, Inc.

Before the House Agriculture Committee

Washington, D.C., Tuesday, March 31, 1987

My name is Vern Freeh, and I'm the Vice President of Public and International Affairs at Land O'Lakes, Inc. Land O'Lakes is a food and agricultural cooperative system owned by 350,000 farmers in the Upper Midwest. I appreciate this opportunity to offer my comments and observations on behalf of Land O'Lakes and its farmer-owners.

About seven years ago, Land O'Lakes made a major, organizational commitment to becoming much more involved internationally This decision was motivated by the recognition that we could not afford to ignore the world scene. We live in a world economy. The economic conditions that determine the financial stability of farmers and the success of our cooperative's business are driven largely by international issues and policies.

We felt that the best way to learn about working in the international arena was to jump in and learn by doing. We decided on a two-pronged approach.

1) We built a traditional, sales-oriented marketing group. These individuals aggressively pursue opportunities to sell food products, commodities, animal feed, seeds, technology, and livestock to foreign customers.

2) We also organized a team of specialists and technical experts to provide technical assistance and special services for international economic development projects.

Food Aid Programs as a Tool for Market Development

Let me cite examples of how Land O'Lakes has participated as a partner with the U.S. government in stimulating development:

In Jamaica we helped devise a way to use surplus U.S. butter and cheese to finance food and agricultural development We helped organize the Jamaican Agricultural Development Foundation and we continue to serve on the foundation's board. The foundation receives grants of cheese and butter from the United States under the PL480 Food for Peace program. A Jamaican firm processes the donated commodities into value-added products that are sold commercially within the nation.

Profits generated by the sale of these products provide a pool of capital for the foundation (estimated at $35-50 million over 10 years). The foundation then makes loans, loan guarantees, investments, and grants to various projects designed to increase Jamaican food production, improve processing and marketing capabilities, and promote the growth of the Jamaican economy.

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In Educador we're helping to stimulate livestock production and to increase the supply of fluid milk available for human consumption. Land O'Lakes is helping a cooperative organization in Ecuador to convert U.S. donated nonfat dry milk (another PL480 grant) and into calf milk replacer. As Ecuadorian farmers switch their calves to milk replacer, greater quantities of fluid milk become available for humans. Furthermore they will realize increased productivity in their dairy and beef production. Long term, we expect this project to result in an expanded market for U.S. sales of livestock, feed grains, animal feeds and ingredients, and other agricultural products.

The Foreign Assistance Act in 1985 and '86 required that $5 million be committed annually to projects that use surplus U.S. dairy commodities to stimulate internatioual agricultural and dairy development. Land O'Lakes will administer more than $2 million of the grant funds provided by the '85 act.

We've encountered obstacles in our efforts to replicate successful programs such as the Jamaican project Currently, PL480 "Food for Peace" and Section 416 guidelines excessively restrict the use of commodities in sales and barter projects of the type we ve successully used in Jamaica and Ecuador. Currently, U.S. cooperatives aren t even mentioned in the administrative guidelines for federal programs despite their success; the types of programs we've conducted are no longer encouraged.

Thankfully, Congressman Panetta has introduced a bill — The Agricultural Aid and Trade Missions Act, H.R. 1809 — that addresses some of these problems. If passed, the Agricultural Aid and Trade Missions Act would address many of the frustrations we and U.S. private voluntary groups have encountered.

We are most pleased by tha bill's provisions regarding Sections 206 and 207 of the Agricultural Trade and Development Assistance Act of 1954 and Section 416 of the Agricultural Act of 1949. These provisions clarify that local currencies generated from the sale or barter of commodities by cooperatives or private voluntary agencies can be used to conduct a variety of programs that help increase incomes and provide needed services for the poor. For instance, cooperative development projects, such as those conducted by Land O'Lakes in Jamaica and Ecuador and by the National Cooperative Business Association in India and Indonesia, follow strict management procedures and help build private enterprises needed to increase local incomes and to expand U.S. agricultural trade with developing countries. Based on our overseas experience, Land O'Lakes supports the responsible use of PL480 title II and Section 416 commodities through programs carefully managed by cooperatives and private voluntary agencies because they work directly with individuals and strengthen the private sector.

H.R. 1809 also would expedite the implementation of food aid programs by assuring that food aid proposals are reviewed within 45 days of submission and that commodities are delivered on time for overseas programs. Currently the processing of proposals may last for months and food deliveries planned in advance, to meet food aid program timetables may be delayed. Such delays add to the cost and make it very difficult to carry out food aid programs.

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We also support the bill's provisions for the establishment of agricultural aid and trade missions to 15 eligible countries to encourage their participation in agricultural aid and trade programs. What we like particularly about this provision is the greater coordination between U.S. aid and trade efforts that is called for.

Like the Coalition for Food Aid Policy and Programs of which we are a member, Land O'Lakes believes that our nation should do everything possible to:

1. Develop coordinated country strategies utilizing a variety of food aid programs - leeding to trade opportunities;

2. Increase the volume of food aid under Section 416 including processed and value-added commodities;

3. Expand the use of local currencies generated from title II and Section 416;

4. Encourage, as strongly as possible, new program proposals from private and public sectors;

5. Expedite the program approval process for these types of programs; and

6. Expand the use of intermediate term credit to build infrastructure and develop livestock industry.

H.R. 1809 would help our nation achieve many of these goals. We thank Congressman Panetta for his leadership and urge passage of this legislation.

Barriers to U.S. Dairy Exports

The major stumbling block to making competitive sales of dairy commodities and food products is price. When we look at domestic prices, European consumers pay as much or more for dairy products as U.S. consumers. But, whereas the U.S. government has a farm program in place to try to balance milk production with the domes ic demand the Europeans use an export subsidy to dump their surplus at price-depressing levels on world markets. Those subsidies are the main obstacle to effective U.S. competition with the Europeans for dairy product exports.

It's not that there aren't customers out there. Every year, Land O'Lakes receives literally hundreds of requests from foreign buyers for a wide variety of dairy commodities and products. But it's gotten so that we don't even bother to develp a quote on most requests because our experience shows we can't possibly meet the world price.

For example, here are the comparable U.S. price and world market price for commonly traded commodities (the world price was developed by the Foreign Agricultural Service on Feb. 6.):

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Commodity	U.S. Price	World Price
Butter	$3,000/metric ton	$1,000/metric ton
Cheddar cheese	$2,805/metric ton	$1,175/metric ton
Nonfat dry milk	$1,175/metric ton	$ 740/metric ton

This is not to say that we've been totally unsuccessful. We have sold several freight containers of cheese to Jamaica. We got the sale because of our relationship established through the Jamaican Agricultural Development Foundation because we had product close at hand and because it was available immediately. We also have sold unsalted butter to Honduras. There, a customer needed it quickly for processing. We had it and could get it to him. In each case, however, we got the sale only because price was not the critical factor.

Export Enhancement Programs that can benefit the U.S. Dairy Industry

Land O'Lakes has experience with the export enhancement program for dairy cattle. During 1986, we signed a contract for sale of 7,500 dairy cattle to Indonesia. We could not have successfully bid on that sale without the bargaining power available through the export enhancement program We could sell still more cattle under this program if USDA would transfer unused cattle allocations to nations that have a continuing demand for cattle.

Recently, the Department of Agriculture announced a new dairy product enhancement program. We had high hopes for this program and submitted comments to USDA suggesting ways the department could design the program to make it truly effective and useful. Regrettably, the department rejected most of our suggestions, and the program that has emerged is largely unworkable and unhelpful in Land O'Lakes' view.

Let me cite a few examples of the shortcomings:

1. Liberal substitution rules are needed to provide flexibility in meeting the needs of foreign customers. For example, the standard for salted butter in the United States is 80% butterfat. However, the standard in many nations is 82% butterfat. Thus, the commodity available as a bonus from CCC inventory would be unsuitable for many foreign customers. Exporters should be permitted to manufacture products for the foreign market and substitute product received as a bonus from CCC for domestic sales.

2. The program requires that an exporter actually ship the product and certify that it has left the United States before the government will release the bonus commodities authorized under the program. This requirement precludes the exporter from making a single shipment to the customer which makes at least two shipments necessary at additional freight costs The solution would be to permit the exporter to ship the bonus commodity at the same time as the original sale commodity.

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3. Under the program provisions, the Commodity Credit Corporation will release older nonfat dry milk first. The older product is fine for animal feeds, but most tender offers are for fresher product, usually no more than four months old. Furthermore, sales of both the product and the bonus must go to an eligible nation listed by USDA. This makes it very difficult for the exporter to find a customer for the bonus commodity.

   These are three possible solutions:

   a. CCC should release bonus commodities of the same grade as the commodities sold.

   b. The rules should permit sale of the bonus commodity to non-eligible nations.

   c. The rules should permit the exporter to substitute product of the same grade for export and use the bonus commodity for a domestic purpose. So, if Land O'Lakes received certificates for a quantity of nonfat dry milk, it could export an additional quantity of fresh product and use the older product in its feed manufacturing operations.

4. Current law terminates the dairy export program on September 30, 1989. We recommend that Congress set the life of the program at five years and provide for an extension at the end of that period, subject to a satisfactory review of its success.

Mr. Chairman, thank you for the opportunity to testify before your Committee. I welcome any questions you may have regarding my remarks.

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TESTIMONY OF PEGGY A. SHEEHAN

Co-Chairman, Coalition for Food Aid Policy and Programs

and

Vice President, National Cooperative Business Association

Mr. Chairman, Members of the Committee, I am pleased to be here today, representing the National Cooperative Business Association and the Coalition for Food Aid Policy and Programs to explore ways to fully utilize food aid to expand U.S. agriculture exports to the developing world.

The National Cooperative Business Association (CLUSA) was founded in 1916 and is a national membership and trade association representing America's cooperative business community. Membership includes farm supply, agricultural marketing, insurance, banking, housing, health care, consumer goods and services, student, credit union, worker, fishery, rural electric, telephone, state associations and other types of cooperatives.

Our membership includes farm supply cooperatives such as the Ohio Farm Bureau; agricultural marketing cooperatives such as Land of Lakes, Farmland Industries, and Countrymark, Inc.; major insurance companies such as Nationwide Insurance and Group Health Association; state rural electrics as well as the National Rural Electric Association. The list goes on and on since we represent over four hundred cooperatives in all areas of business.

The Coalition for Food Aid was formed in 1985 to expand the use of food aid as a development resource. The Coalition consists of cooperative organizations such as the National Cooperative Business Association, cooperatives such as Land O'Lakes, and private voluntary organizations (PVO's) such as CARE, World Vision and the Adventist Development and Relief Agency. Coalition member organizations manage food aid programs in over 40 countries in the developing world.

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We have worked very closely with our own members as well as the agribusiness and transport industry to expand both the volume and uses of food aid in the developing world. Food aid programs benefit both the recipients in the developing world and the U.S. economy. Food aid programs benefit farmers, processors, warehousers, retailers, railroads, port authorities and the U.S. shipping industry.

Developing countries have replaced industrialized nations as our fastest growing markets. The population of less developed countries is expected to increase by 1.2 billion over the next 15 years. The demand for U.S. exports is in the developing world. The key to fulfilling the unmet demands in the developing world is to stimulate economic growth. Food aid and export assistance programs can and should be used to stimulate growth and expand markets -- as incomes improve, diets improve and the demand for and the ability to purchase food increases. Let's make A.I.D. lead to trade.

Food aid and exports programs are not being used to their fullest potential. The Farm Bill of 1985 provided both additional quantities of food aid as well as the authority to use food aid more effectively. The authority is there; how do we use it more effectively?

We believe that the Agricultural Aid and Trade Missions Act, introduced by Mr. Panetta, will increase exports and long term market potential in the developing world.

1. AGRICULTURAL AID AND TRADE MISSIONS

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While the Coalition has focused on PL 480 and the Section 416 programs, intermediate credit, the Export Enhancement Program and the Targeted Export Assistance programs are all vital tools toward expanding U.S. markets and assisting developing nations to help themselves. My own organization, the National Cooperative Business Association, was the first to utilize the Export Enhancement Program. We arranged for the sale of 25,000 metric tons of soybean oil to an Indian cooperative under the EEP program. All of these programs should be used to develop country by country strategies for economic and market development. Unfortunately in the past, these programs have been compartmentalized and have not been used as mutually re-enforcing tools. In each country visited by the teams, a total food aid package should be developed to address the humanitarian, developmental and marketing needs of that country. Private and public sector teams organized to visit targeted countries will design, develop and expedite action on programs. The cornerstone of this approach is that all of these programs become part of a continuum of food aid and export enhancement tools which permit the U.S. government to meet the needs of countries at varying stages of their development.

2. EXPANDED USE OF LOCAL CURRENCY GENERATED FROM PL 480, TITLE II AND SECTION 416.

Local currency proceeds from the partial or full sales of donated Section 416 or PL 480, Title II commodities can be used by private voluntary organizations and cooperatives to finance agriculture, community, health, credit, and cooperative development projects.

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These activities help individuals in developing countries provide for themselves, strengthen the private sector, and ultimately help countries to progress from low to middle income status which will result in higher levels of imports. Examples of projects include an oilseed cooperative system in India, the establishment of a financial institution in Jamaica, and food-for-work projects with landless poor women in Bangladesh.

Even though the law permits partial and full sales of Section 416 and Title II commodities for development projects by PVO's and cooperatives, and such projects have been successful in the past, current administrative guidelines have severely limited the types of programs they can initiate. The Administration will only allow PVO's and cooperatives to sell a small portion of the donated commodities to help pay for transportation, distribution, or ancillary costs of direct feeding programs. Cooperative, agriculture, credit, and other development projects by PVO's and cooperatives are discouraged, even though they can build the bridge from relief to recovery, from dependence to self-sufficiency.

Such restrictions do not apply when food is donated to a foreign government. In fact, $189 million in Section 416 commodities has been made available as compensation to countries that have reduced the sugar quotas for the U.S. in 1987. The recipient governments may sell the food in-country and use the proceeds as they wish.

At a time of abundant U.S. commodities and severe budget restraints,

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administrative limitations for cooperatives and PVO's are an impediment to economic, private sector and market development overseas. The guidelines governing sales and barter should be more flexible and encourage development-oriented projects using local currencies. PVO's and cooparatives are important partners in development — they can work directly with individuals and strengthen communities and the private sector. The amendments contained in this bill clearly specify the uses of local currencies under both Title II and Section 416, increases the volume of food aid as well as commodities eligible and establishes deadlines for the approval of programs.

Mr. Chairman, we appreciate your interest and that of this Committee in expanding the use of food aid in the third world as both a tool for development as well as a vehicle to create new U.S. markets.

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Coalition for Food Aid Policy and Programs

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Member Organizations

Adventist Development and Relief Agency

CARE

Food for the Hungry

National Cooperative Business Association

Land O'Lakes

World Vision Relief Organization

Co-Directors

Peggy Sheehan
National Cooperative Business Association

Charles Sykes
CARI

Executive Director

Ellen Levinson

Chief Program Analyst

Dick Louden

March 30, 1987

Dear Congressman:

As private voluntary organizations and cooperatives that conduct food aid programs in developing countries we urge you to support H.R. 1809, the Agricultural Aid and Trade Missions Act. Members of the Coalition not only distribute U.S food aid under emergency conditions, but also carry out a variety of non-emergency food aid projects in developing countries using donated commodities or the local currencies generated from the sale of such products. These projects include food for work, health care school lunch, and cooperative and private enterprise development.

H.R. 1809, introduced last week by Representative Panetta, calls for short term missions to 15 developing countries to identify uses of agriculture rade and food aid programs, increases the number of Foreign Agriculture Service employees, improves Section 416 and PL 480 title II programs to make them stronger development tools and increases the minimum tonnage under Section 416 from 650,000 mt to 1 mmt. I also eliminates some of the delays in food aid administrative procedures by requiring imely consideration of food aid proposals and delivery of commodities and clarifies that feed grains and processed agricultural products can be used under Section 416.

This legislation emphasizes the importance of using food assistance and agricultural trade programs in a complimentary fashion. Through better targeting and more specialized use of existing government programs, the United States could increase U.S. agricultural exports and also promote economic growth in developing countries.

In order for a developing country to advance from the subsistence stage to the stage of being a significant food importer there must be job opportunities and better health and human services for the poor. Food aid can play a role in this process. Several provisions of H.R. 1809 clarify that local currencies generated from the sale or barter of commodities under Section 416 or PL 480 title II can be used by private voluntary agencies and cooperatives to help establish private enterprises, to create jobs, and to provide local health and humanitarian services. Although such activities have been successfully conducted by our members, current administrative guidelines do not encourage such activities.

Since the planning stage for fiscal year 1988 agricultural trade and food aid programs is already underway, timely action on H.R. 1809 is important. We urge your support for H.R. 1809.

Sincerely,

Peggy Sheehan
Co-director

Charles Sykes
Co-director

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STATEMENT OF

GEORGE F. SORN
EXECUTIVE VICE PRESIDENT
AND
GENERAL MANAGER
FLORIDA FRUIT & VEGETABLE ASSOCIATION

Mr. Chairman, thank you for giving me the opportunity to share our views with this Committee. My name is George Sorn and I am the Executive Vice President and General Manager of the Florida Fruit & Vegetable Association (FFVA or Association).

FFVA is a non-profit agricultural trade association of fresh fruit and vegetable growers and shippers. Our members grow and ship a substantial volume of all fresh fruits and vegetables grown in Florida. FFVA was organized in 1943 under the laws of the State of Florida to provide the means of dealing with public and private agencies to aid in the recognition and solution of industry problems.

FFVA has a long history of international trade involvement and is active in many areas involving U.S. international trade matters.

Last week the Cabinet-level Economic Policy Council met to consider sanctions against the dumping of Japanese semiconductors. It is reported that sanctions were approved and a recommended course of action was prepared for President Reagan. Similar trade concerns have been heard in Washington concerning foreign cars, steel, textiles, and electronic appliances. What goes unnoticed and, therefore, unattended, is the dramatic increase in foreign food shipped to and consumed in the United States. Although per capita consumption of winter fruits and

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vegetables has not changed much, what has changed is the origin of the fruits and vegetables we eat. We get pork and now wheat from Canada, fruits and vegetables from Mexico and Central and South America, beef from Australia, olives from Portugal, mushrooms from Taiwan and pistachios from Iran. In addition, these foods, even with substantially higher transportation costs, generally cost less in the United States than domestic foods.

It is no wonder that the U.S. has experienced its first trade deficit in agriculture in recent memory. And, there appears to be no relief in sight. Food imports last year were expected to be about $24 billion.

At one time, Florida was the leading supplier of the domestic winter vegetable market and its major foreign competition was Cuba. Now, during the winter months, Florida produces less than half of the tomatoes, peppers, cucumbers and other winter vegetables. Florida's competition is principally with Mexico and, while Mexico is allowed to ship freely into the United States and take away the market from U.S. producers, we cannot ship winter fruits and vegetables into Mexico, despite Mexico's accession to GATT.

The point is that foreign produce, often financed by U.S. interests, is being shipped into the U.S. in greatly increased quantities and the U.S. consumer does not know the origin of the

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produce. More significantly, U.S. producers of fruits and vegetables are being hurt and we are losing our ability to maintain our share of our own market.

Consumers clearly do not know where their food comes from. Imported food is rarely identified for the consumer. Moreover, consumers are generally unaware that many food products they think are American products are not. For example, much of the orange juice processed in Florida uses a mixture of Brazilian and Florida concentrate as its base.

Recent investigations conducted by the General Accounting Office (GAO) confirm several earlier reports that illegal pesticides on imported food products, especially on fresh fruits and vegetables, have about three times more chance of containing illegal chemicals than domestic produce and pose more of a threat to the health of U.S. consumers than do domestic produce. In addition, when consumers don't know they are consuming a foreign product, then they cannot avoid the greater risk of consuming illegal pesticides on imported foods. Because of the high degree of U.S. governmental regulations of industry, consumers have been lulled into a false sense of security regarding the safety of the imported foods they are consuming. Consumers generally believe that our government is protecting us from consuming unsafe foreign foods. Relatively speaking, this is true. Our food

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supply is probably the best and safest in the world. However, this is a relative comparison.

The GAO reports note serious deficiencies in the way foreign produce is inspected by the Food and Drug Administration. In a number of reports over the last ten (10) years, GAO has found that better regulation of pesticide residues on imported foods is "essential". FDA's shortcomings include inadequate sampling and monitoring at ports of entry, inadequate methods of testing for residues, inadequate enforcement and imposition of sanctions.

There should be no case where a food found by FDA to be adulterated is marketed and consumed by an unsuspecting public without a penalty to importers.

FDA should improve its food residue testing.

FDA needs to provide for the timely completion and reporting of laboratory analyses so that actions can be taken to prevent the marketing of adulterated foods.

FDA should consider including penalty provisions such as automatic forfeiture of security bonds in importer agreements to deal with adulterated foods which have been marketed.

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Mr. Chairman, the Safe Food Import Act of 1987 is a modest first step to address a very real and a very significant problem. Emphasis should be placed on the words "first step". This bill is an important and necessary step to get better inspections and enforcement of pesticide residues on imported foods and help ensure more and more representative samplings. It will lead to legislation designed to strengthen the penalty system for violations and it should provide the impetus to develop improved and faster testing methods of detecting pesticide residues on imports.

The beneficiaries of this bill will be the U.S. consumers who justifiably will have a greater degree of confidence that they are consuming unadulterated food imports.

As Mr. Panetta so aptly stated, the risk of exposure to dangerously high levels of illegal pesticides on imported foods is no longer acceptable. American consumers must be protected. Certainly, imported foods should comply with the same standards on foods produced by the American farmer.

This legislation will help achieve that goal.

On behalf of the members of the Florida Fruit & Vegetable Association, I thank you for giving us the opportunity to comment on this bill and I urge the members of this Committee to favorably consider this legislation.

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STATEMENT OF

GEORGE URIBE, EXECUTIVE VICE PRESIDENT

WEST MEXICO VEGETABLE DISTRIBUTORS ASSOCIATION, NOGALES ARIZONA

MARCH 31, 1987

COMMITTEE ON AGRICULTURE

My name is George Uribe. I am the executive vice president of West Mexico Vegetable Distributors Association which is located in Nogales, Arizona. The Association is a non-profit organization incorporated under the laws of Arizona. It has 65 members, all of which are American businesses involved in importing, selling and distributing fresh winter vegetables and fruits that are grown mostly in the states of Sinaloa and Sonora on the west coast of Mexico.

I am here today to express general support for H.R. 1778, Safe Food Import Act of 1987, which was introduced by Mr. Panetta and Mr. Coelho of this committee, as well as by other Members.

The bill calls for a redistribution of Food and Drug Administration resources to improve inspections and enforcement. We are in support of that because the port of Nogales is understaffed by the Food and Drug Administration. Considering the circumstances, the FDA inspection system

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works remarkably well, and we believe the consumer is more than adequately protected from illegal pesticide residues. At the same time, we believe that the level of inspection leaves a false impression that not enough is being done and leaves all of us open to criticisms as well as accusations.

Because much of the Mexican fresh winter produce imported into the United States comes through Nogales, we believe there should be a FDA laboratory in Nogales to conduct timely tests. At present the testing is done in Los Angeles and we believe that is not an efficient way to monitor imports.

We believe American consumers deserve to be assured that the foods they eat are pure and wholesome. Even though we as importers do our best to make certain that the vegetables and fruits are properly grown and harvested in Mexico, we believe American consumers would like to have the assurance of FDA tests that the foods are pure and wholesome. We endorse improved inspections and enforcement by the FDA because without consumer confidence in the purity and safety of food, no one can remain in business--not the American farmer, not the importer, not the retailer.

While we believe that improved inspections and enforcement are good, we also believe that they must be conducted in ways that do not impede the flow of international trade. Because inspections can be used to affect the flow of trade, we must be careful not to be over-

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zealous or do things that then in turn can be used against our agricultural exports by our trading partners.

All of us are fully aware of the fact that some segments of the American farm economy are suffering and that in some instances imports have impacted the domestic farm economy. We must be careful, however, to avoid placing all the blame on imports or foreign competition. We must remember that some agricultural products are not grown in the United States or are not available in sufficient quantities. Imports, therefore, are necessary to provide a full range of foods for Americans.

In the case of fresh winter vegetables, domestic sources, of course, are available in limited quantities. During the winter months, domestic production cannot meet the total demand for fresh vegetables and fruits. Imports must supplement the domestic supply. That is why we must keep our trade doors open, yet make sure that our FDA inspections and enforcement assure the availability of wholesome, pure, and fresh foods.

All too often, discussions about pesticide residues center on imports of vegetables and fruits from Mexico. Imports from other countries too frequently are not mentioned. We would like to emphasize, therefore, the fact that the foods we eat in the United States come from many countries and that a very wide variety of foods are being imported. We stress, therefore, that improved FDA inspections and enforcement are essential on a very broad

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basis to assure pure and wholesome foods for the American public. While we seek improved and timely inspections by the FDA in Nogales, we also encourage stepped up inspections at other ports of entry because misapplications of pesticides can happen anywhere, in any country, at any time. That is why we all must have better and improved FDA inspection activities.

Some people often seem to believe that imports do not have to comply with the same rules and standards that are imposed on American farmers, producers, and growers. On the contrary, imports must meet every safety standard applicable to Americans; there are no exceptions. In many cases, imports of vegetables and fruits must meet American grade and size requirements as well.

The issue is food safety and purity, not imports. The issue is what this Congress can do to assure the American people that all the foods they eat are wholesome. So far, the FDA inspection system has worked well, considering the limited resources. It is also true that if the FDA inspection and enforcement systems are not kept up to date with the changing conditions of our society and international trade, the food industry could face problems in the future. It is for the purpose of protecting the future food resources that we believe improved inspections and enforcement by the FDA will be of benefit to all of us. We, therefore, endorse the general concept of H.R. 1778 so that Americans can continue to obtain pure and wholesome foods from a wide range of domestic as well as international sources.

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STATEMENT OF SCOTT SHOTWELL

THANK YOU FOR THE OPPORTUNITY TO TESTIFY TODAY. MY NAME IS SCOTT SHOTWELL, AND I AM ACTING PRESIDENT OF THE NATIONAL FOREST PRODUCTS ASSOCIATION (NFPA). NFPA IS A NATIONAL INDUSTRY TRADE ASSOCIATION REPRESENTING OVER 800 DIRECT, ASSOCIATED AND ALLIED MEMBERS ENGAGED IN TIMBER GROWING, HARVESTING, MANUFACTURE AND DISTRIBUTION OF FOREST PRODUCTS.

NFPA SUPPORTS THE EFFORTS OF THE HOUSE AND OF YOUR COMMITTEE TO CREATE A VIABLE INTERNATIONAL TRADE BILL WHICH WILL STRENGTHEN AMERICA'S COMPETITIVENESS, AND ENCOURAGE THE ADOPTION OF FAIR AND EQUITABLE INTERNATIONAL TRADING RULES TO INCREASE U.S. EXPORTS TO WORLD MARKETS.

I WOULD LIKE TO FOCUS MY COMMENTS TODAY ON THE EXPORT FINANCING PROGRAMS UNDER THE COMMODITY CREDIT CORPORATION, ADMINISTERED BY THE U.S. DEPARTMENT OF AGRICULTURE, AND RELATE THEIR IMPORTANCE TO OUR INDUSTRY. IN ADDITION, I WILL REPORT ON THE PROGRESS OF THE DEPARTMENT OF AGRICULTURE'S FOREIGN AGRICULTURAL SERVICE (FAS) PROMOTION OF WOOD PRODUCTS EXPORTS.

CCC EXPORT FINANCING PROGRAMS

IN CONJUNCTION WITH THE FAS MARKET DEVELOPMENT PROGRAM, OUR INDUSTRY HAS BEEN USING THE COMMODITY CREDIT CORPORATION'S (CCC) EXPORT CREDIT GUARANTEE PROGRAM FOR OVER 5 YEARS. MAINLY, WE HAVE USED THE SHORT-TERM GSM-102 PROGRAM WHICH GUARANTEES LOANS UP TO 3 YEARS. IN ADDITION, OUR PRODUCTS WERE READY TO PARTICIPATE IN THE NEW GSM-103 PROGRAM, INITIATED IN 1986, WHICH GUARANTEES LOANS

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FROM THREE TO TEN YEARS. RECENTLY, HOWEVER, OPPOSITION TO WOOD PRODUCTS PARTICIPATION IN THE GSM 103 PROGRAM HAS SURFACED, AS WELL AS OPPOSITION TO FURTHER USE OF THE SHORT-TERM GSM 102 PROGRAM BY WOOD PRODUCTS.

ARGUMENTS FOR EXCLUDING WOOD AND PROCESSED WOOD PRODUCTS FROM USING GSM 102 AND 103 APPEAR TO BE DIRECTED AT 1) WHETHER PROCESSED WOOD PRODUCTS SHOULD BE DEFINED AS MANUFACTURED PRODUCTS OR AS AN AGRICULTURAL PRODUCT, AND 2) WHETHER EXPORT CREDIT GURANTEES FOR LONGER THAN 60 DAYS MAY BE TERMED AN EXPORT SUBSIDY UNDER INTERNATIONAL CREDIT AGREEMENTS.

THE U.S. WOOD PRODUCTS INDUSTRY, USDA, AND THE CONGRESS MAINTAIN THAT WOOD PRODUCTS ARE AGRICULTURAL PRODUCTS AND GSM-102/103 IS NOT A SUBSIDY. GATT RULES LEAVE IT TO EACH COUNTRY TO DETERMINE WHETHER A PRODUCT IS AN AGRICULTURAL PRODUCT. IN REPORT LANGUAGE ACCOMPANYING THE AGRICULTURAL EXPORT EXPANSION ACT OF 1978, CONGRESS STATED... "THE TERM AGRICULTURAL COMMODITIES AS USED IN THE BILL WOULD INCLUDE LUMBER, PLYWOOD, AND SIMILAR WOOD PRODUCTS."

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ALSO, AS PART OF THE AGRICULTURAL AND FOOD ACT OF 1981, PUBLIC LAW 97-98, DEC. 22, 1981, CONGRESS MANDATED THAT USDA IMPLEMENT MARKET DEVELOPMENT PROGRAMS FOR FOREST PRODUCTS. THE LAW STATED THAT THESE PROGRAMS SHOULD INCLUDE "COMMODITY INFORMATION, TRADE POLICY AND MARKET DEVELOPMENT."

AS FOR EXPORT SUBSIDIES, THE GATT SUBSIDIES CODE PROVIDES AN ILLUSTRATIVE LIST OF EXPORT SUBSIDIES. EXPORT CREDIT GUARANTEES ARE ONLY CONSIDERED EXPORT SUBSIDIES TO THE EXTENT THAT THEIR PREMIUM RATES ARE "MANIFESTLY INADEQUATE TO COVER THE LONG-TERM OPERATING COSTS AND LOSSES OF THE PROGRAMS." USDA COVERS ITS LONG-TERM OPERATING COSTS AND LOSSES. THE COMMERCIAL BANKS, WHICH PROVIDE THE FINANCING AND DIRECTLY PAY THE U.S. EXPORTERS UNDER THE GSM PROGRAMS, MAKE A PROFIT. FROM A GATT VIEW, THEREFORE, GSM 102/103 CREDITS WOULD NOT APPEAR TO BE SUBSIDIES.

P.L. 97-98 MANDATED THAT THE DEPARTMENT OF AGRICULTURE IMPLEMENT A FULL-SCALE FOREIGN MARKET DEVELOPMENT PROGRAM FOR FORESTRY PRODUCTS. AS A RESULT, $5 MILLION WAS AUTHORIZED FOR RAILWAY TIES IN EGYPT IN 1982. FOR FISCAL YEAR 1983, OVER $8 MILLION WAS EARMARKED FOR THE PURCHASE OF U.S. LUMBER BY JAMAICA. OTHER COUNTRIES THAT HAVE PARTICIPATED IN THIS GUARANTEE PROGRAM INCLUDE HAITI, THE DOMINICAN REPUBLIC, MEXICO, AND ALGERIA. CURRENTLY, THERE ARE GSM-102 FUNDS TOTALLING $94 MILLION ALLOCATED FOR WOOD PRODUCTS PROGRAMS IN SEVERAL COUNTRIES.

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THEY INCLUDE, EGYPT ($2 MILLION),HAITI ($1.8 MILLION), IRAQ ($22 MILLION), MEXICO ($65 MILLION), TURKEY ($3 MILLION), AND URUGUAY ($1 MILLION).

THERE IS AN INCREASED INTEREST AND DEMAND FOR WOOD AND WOOD PRODUCTS, MAINLY BECAUSE OF THE HOUSING AND SHELTER PROGRAMS INITIATED IN LATIN AMERICA AND OTHER DEVELOPING COUNTRIES. HOWEVER, TO FURTHER THESE HOUSING PROGRAMS, THE INDUSTRY NEEDS LOW INTEREST CREDIT AND LONG-TERM CREDIT GUARANTEE PROGRAMS, OTHERWISE THESE MARKETS DEVELOPED BY OUR INDUSTRY WILL FALL TO OTHER COUNTRIES THAT PROVIDE EASY CREDIT AND OTHER INCENTIVES.

THE NEW GSM-103 CREDIT GUARANTEE PROGRAM IS ESPECIALLY IMPORTANT TO US SINCE THERE ARE INDICATIONS THAT KOREA, JORDAN, COSTA RICA, YEMEN AND OTHERS ARE INTERESTED IN USING THIS INTERMEDIATE GUARANTEE PROGRAM FOR WOOD PRODUCTS.

WE ESTIMATE THAT THE DENIAL OF INCLUDING WOOD AND WOOD PRODUCTS UNDER THE GSM 102/103 PROGRAMS OVER THE PAST SIX MONTHS, HAS COST THE FOREST PRODUCTS INDUSTRY POTENTIALLY $21 MILLION IN WOOD PRODUCTS EXPORTS, THEY ARE:

GUATEMALA	$5 MILLION
EL SALVADOR	$5 MILLION
ARGENTINA	$3 MILLION
ALGERIA	$5 MILLION
IRAQ	$3 MILLION

TOTAL IN LOST EXPORTS= $21 MILLION

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WHILE THE DOLLAR VALUE OF THESE PROGRAMS SEEM RELATIVELY SMALL THEY PLAY A VERY IMPORTANT ROLE IN OPENING MANY NEW EXPORT MARKETS.

OUR INDUSTRY SUPPORTS THE PL 480 PROVISIONS INCLUDED IN VOLKMER/MORRISON PROPOSED AMENDMENT AND H.R. 3 AS INTRODUCED. THESE PROVISIONS WOULD ENCOURAGE COUNTRIES RECEIVING FOOD AID TO USE THE MONEY GENERATED BY THE SALE OF THESE COMMODITIES TO PURCHASE WOOD PRODUCTS FOR NEEDED SHELTER PROJECTS.

THE INDUSTRY ALSO SUPPORTS THE EFFORTS OF THE STAFF OF SUBCOMMITTEE ON FORESTS, FAMILY FARMS, AND ENERGY IN PREPARING THE VOLKMER/MORRISON PROPOSED AMENDMENT THAT ADDRESSES THE ISSUE OF ENSURING THAT WOOD AND PROCESSED WOOD PRODUCTS ARE CONSIDERED AGRICULTURAL PRODUCTS AND ELIGIBLE FOR SHORT AND MEDIUM-TERM GSM 102 AND 103 EXPORT GUARANTEE PROGRAMS. HOWEVER, WE URGE THE COMMITTEE TO INCLUDE ADDITIONAL STRENGTHENING LANGUAGE TO CLEARLY MANDATE THAT USDA HAS THE AUTHORITY AND FINANCIAL TOOLS TO EFFECTIVELY PROMOTE WOOD AND PROCESSED WOOD PRODUCTS FOR EXPORT. WE URGE THE COMMITTEE TO INCLUDE THE FOLLOWING LANGUAGE IN STATUTE:

> "All wood and processed wood products, are eligible for and will be made available under all USDA commercial and concessional export credit programs to importing countries, upon the determination of the Secretary of Agriculture.

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PAGE 6

ALSO INCLUDED IN STATUTE:

The definition of processed wood products includes the U.S. International Trade Commission Tariff Schedules, as follows:

Schedule 2,	Part 1	Wood and Wood products
	Part 3	Wood Veneers, Plywood and other Wood-Veneer Assemblies, and Building Boards.
	Part 4	Subpart A, Item 250.02 Wood pulp

WE RECOMMEND THE FOLLOWING BE INCLUDED IN REPORT LANGUAGE:

"With regard to the commercial export financing programs of the U.S. Department of Agriculture's Commodity Credit Corporation, the Secretary of Agriculture need only advise other agencies of its activities."

"It is the policy of the United States to make it the responsibility of the Secretary of Agriculture to utilize to the maximum extent the commercial and concessional export credit programs of the U.S. Department of Agriculture for market development purposes."

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FAS MARKET DEVELOPMENT PROGRAM

WE URGE YOU TO CONTINUE TO STRENGTHEN THE FOREIGN AGRICULTURE SERVICE (FAS) PROGRAM. THE FAS MARKET DEVELOPMENT OR COOPERATOR PROGRAM IS IMPORTANT TO THE U.S. FOREST PRODUCTS INDUSTRY'S EXPORTING EFFORT. IN 1980 A COOPERATOR PROGRAM WAS ESTABLISHED BETWEEN FAS AND THE NATIONAL FOREST PRODUCTS ASSOCIATION, WITH NFPA REPRESENTING THE WOOD PRODUCTS INDUSTRY. THIS COOPERATOR PROGRAM HAS BECOME FUNDAMENTAL TO THE INDUSTRY'S MARKET STRATEGY OVERSEAS.

LAST YEAR, THE MARKET DEVELOPMENT PROGRAM FOR FOREST PRODUCTS INVOLVED A TOTAL OF ABOUT $6.5 MILLION TO WHICH FAS CONTRIBUTED APPROXIMATELY $2.5 MILLION. THE PROGRAM IS NOW TARGETTED AT 35 COUNTRIES AND INVOLVES 17 TRADE ASSOCIATIONS IN THE INDUSTRY. THE PROGRAM, FOR EXAMPLE, FUNDS TECHNICAL SEMINARS IN GERMANY AND CHINA, ADVERTISING IN SPAIN AND KOREA, TRADE SHOWS IN THE UK AND JAPAN, WOOD PRODUCTS BROCHURES IN TEN LANGUAGES, HOUSING DEMONSTRATION PROJECTS IN LATIN AMERICA, JAPAN AND CHINA AND A VARIETY OF OTHER PROJECTS OF IMMENSE BENEFIT TO THE INDUSTRY'S EXPORTING EFFORT.

IN ADDITION WE BELIEVE THE FAS MARKET DEVELOPMENT APPROACH HAS ASSISTED THE FOREST PRODUCTS INDUSTRY TO PENETRATE MARKETS THAT USE VERY LITTLE WOOD IN THEIR HOUSING CONSTRUCTION. BECAUSE OF

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OUR AGGRESSIVE MARKETING APPROACH OVERSEAS, THESE COUNTRIES ARE DEVELOPING AN INTEREST IN WOOD FRAME CONSTRUCTION WHICH THEY REALIZE WILL BE THE MOST COST-EFFECTIVE WAY OF SOLVING THEIR HOUSING SHORTAGE.

U.S. WOOD PRODUCTS EXPORTS IN 1986 TOTALLED $3.0 BILLION, UP 10% FROM 1985. WE EXPECT THEM TO BE UP ANOTHER 18% IN 1987 AND ARE FORECASTING EXPORTS OF $ 5.4 BILLION BY 1990. EVEN DURING THE PERIOD OF THE HIGH VALUE OF THE U.S. DOLLAR, OUR EXPORTS DECLINED ONLY SLIGHTLY TO ABOUT $2.7 BILLION - A FACT WHICH WE ATTRIBUTE PARTIALLY TO THE HIGHLY SUCCESSFUL FAS MARKETING PROGRAM. THE FAS PROGRAM HAS AND WILL PLAY A MAJOR PART IN STIMULATING GROWTH IN U.S. WOOD PRODUCTS EXPORTS.

DURING THIS TIME OF HIGH TRADE DEFICITS, WE URGE THE COMMITTEE TO CONTINUE SUPPORT FOR THE FAS PROGRAM, WE BELIEVE IT IS IMPORTANT TO OUR EXPORTING MARKET STRATEGY.

WE WOULD LIKE TO TAKE THIS OPPORTUNITY TO SUPPORT THE VOLKMER/MORRISON DISCUSSION DRAFT'S PROPOSED ADDITION OF SUBTITLE D TO TITLE VI AGRICULTURAL TRADE. SUBTITLE D, THE FOREST PRODUCTS COMPETITIVE MARKETING ACT OF 1987 WOULD COMPLEMENT AND ENHANCE THE EFFORTS OF THE FAS PROGRAM. THE ACT WOULD PROVIDE TECHNICAL ASSISTANCE TO STATES, NONINDUSTRIAL LANDOWNERS, AND SMALL TO MEDIUM-SIZED FOREST PRODUCTS FIRMS AND AUTHORIZE GRANTS TO STATES. THIS PROGRAM WOULD PROVIDE MUCH NEEDED INFORMATION AND ASSISTANCE

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AT THE STATE LEVEL, AND HELP TO PROMOTE AND ACCESS MORE MARKETS FOR FOREST PRODUCTS. BY PROVIDING ASSISTANCE FROM THE SAWMILL TO THE BORDER, THE PROGRAM COULD HELP CONNECT THE "MISSING LINK" IN OUR EXPORTING CHAIN. THE PROGRAM WOULD ONLY BE CARRIED OUT WITHIN THE UNITED STATES AND WOULD NOT BE EXTENDED TO DEPARTMENT OF AGRICULTURE ACTIVITIES IN FOREIGN COUNTRIES.

WE URGE THE COMMITTEE TO INCLUDE, IN STATUTE, THE PROPOSED STRENGTHENING LANGUAGE WE HAVE LISTED IN THIS STATEMENT. WE ASK THAT THIS LANGUAGE BE ADDED TO ANY AMENDMENT THE COMMITTEE MAY MAKE TO THE AGRICULTURAL TITLE OF OMNIBUS TRADE LEGISLATION.

THANK YOU MR. CHAIRMAN, THIS CONCLUDES MY TESTIMONY.

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A STATEMENT SUBMITTED BY DAVID L. ROGOWAY,
VICE PRESIDENT, MARKETING
AMERICAN PLYWOOD ASSOCIATION

FOR

U.S. COALITION FOR FOREST PRODUCTS EXPORTS
(Member Associations: American Plywood Association, Hardwood Export Trade Council, National Association of State Foresters, National Forest Products Association, Western Wood Products Association, Southern Forest Products Association)

To

The House Committee on Agriculture

March 31, 1987

On behalf of the U.S. Coalition for Forest Products Exports, I would like to thank you and members of the Committee for allowing the coalition to submit this testimony for the Committee's review.

The U.S. Coalition for Forest Products Exports represents more than 1,783 mills and plants, 370,000 jobs, and 120 million acres in the United States. The coalition was formed to secure access for forestry products to financing and promotion programs now available to other agricultural commoodities for export.

The U.S. wood products industry has worked closely with the U.S. Department of Agriculture (USDA) and a number of other federal and state elected officials and government agencies to sponsor a series of programs to promote the use of wood and wood processed products in other countries. U.S. forest products can be competitive in international markets. What is necessary is to give the industry an opportunity to compete - an opportunity we have worked hard to create by using all the export marketing tools presently available. The key to long term development of export markets in less developed, developing and intermediate income countries is access to financing.

Forest products are a major U.S. export representing $3 billion in 1985. In fiscal year 1986, Commodity Credit Corporation (CCC) programs accounted for close to $10 million in forest products export sales that otherwise would not have been

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possible. Jamaica, Peru, El Salvador, Iraq, Turkey, Egypt, and Algeria are examples of developing countries that have either purchased, or would like to purchase, wood and wood processed products using CCC programs. Currently, $21 million in requests for U.S. forest products exports are at stake.

We are not asking for an increase in the yearly 4 to 5 billion dollar CCC program funding. We are, however, asking for access to the existing funds which are not fully utilized. In fact, only 50% of the CCC authorization is used each year.

To ensure the future health of the forest products industry in this country, we must have strong export markets for our products. We are dismayed that certain Executive agencies are attempting to exclude wood and processed wood products from using GSM 102 and 103. This runs counter to the national goal of increasing exports, and is contrary to the will of Congress, while also ignoring that wood products are an established, demonstratably successful part of USDA cooperator programs.

Arguments for excluding wood and processed wood products from using GSM 102 and 103 appear to focus on 1) whether processed wood products should be defined as manufactured products or as an agricultural product and 2) whether international credit agreements prohibit the United States from using subsidized credit programs for processed agricultural products.

With respect to the objections, we believe it has been well documented by the U.S. Department of Agriculture (USDA) that the GSM 102 and 103 credit guarantee programs are not considered subsidies by international definition. We are also confident that substantial evidence exists to support the classification of wood and processed wood products by the United States as an agricultural product for export. Some of the evidence substantiating these positions is as follows:

- GATT rules allow each country to determine what is or is not an "agricultural " product in international trade. There is irrefutable evidence that the U.S. Government has designated wood products as an "agricultural " product.

- Report language for the Agricultural Export Expansion Act of 1978 established that the term "agricultural commodities would include lumber, plywood, and similar wood products" (Senate Report #95-1142, code #1061).

- In 1980, the industry embarked upon a joint market development program with the USDA Foreign Agricultural Service. This program now targets over 35 countries and involves 17 associations in the U.S. wood products industry whose members produce a wide variety of processed wood products.

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- As part of the Agricultural & Food Act of 1981, Congress mandated that USDA implement a full scale market development program for forest products. The law stated that this program should include "commodity information, trade policy and market development" (Public Law 97-98, Dec. 22, 1981).

- In 1981, the first CCC program was approved for lumber exports to Jamaica; a number of programs in other countries have been approved since then.

- In 1982, the Department of Agriculture and Commerce agreed that overseas wood products promotional programs would be handled by foreign agricultural not commercial attaches in U.S. embassies abroad.

- Since 1983, USDA has had a forest products marketing division, similar to those established for other agricultural products for export.

- USDA has repeatedly stated in testimony to Congress that it supports the forest products industry's access to CCC. For example, on March 12, 1986, and again on March 10, 1987, Tom Kay Administrator, Foreign Agricultural Service, USDA, testified before the House Foreign Affairs Subcommittee on International Economic Policy and Trade that he strongly supported wood products eligibility for GSM 102/103. He further restated the same position on March 11, 1987 before the House Agriculture subcommittee on Forestry.

As to degree of processing, rough lumber or veneer is no more "manufactured" than wheat (each is stripped of its outercoating, then receives processing). Plywood is only a step beyond the forest resource in terms of processing, just as soybean oil is a step beyond soybeans and wheat flour is a step beyond wheat. Examples of manufactured products, on the other hand, are doors and furniture where combinations of processed primary products such as lumber, plywood and veneer have been combined through manufacturing.

Because of your long-standing commitment to promoting U.S. exports, we urge your support of several key provisions to be incorporated into the 1987 Omnibus Trade BIll. Some of these provisions have already been included in HR 3.

Based on recommendations made by the Naional Commission on Agricultural Trade and Export Policy last year, we are proposing that legislative language in the statute encompassing the Commodity Credit Corporation (CCC) short- and medium-term credit guarantee programs (GSM 102/103), and other direct credit programs administered by USDA, including those programs authorized under Public Law 480, be made available for financing U.S. forest products exports.

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The legislative language we are proposing to ensure access for forest products to these programs includes the following:

1. Language defining wood and processed wood products as agricultural products. With this definition, instructions must be given to the Secretary of Agriculture to make U.S. direct credit and credit guarantee financing programs available to all agriculture and processed agricultural products, including forest products as defined by the 1987 United States International Trade Commission Tariff Schedules, Schedule 2, Part 1, Part 3, and Part 4 for the purpose of developing overseas markets.

2. Language specifying that forest products, as defined by the tariff schedules noted above, are eligible for the Commodity Credit Corporation (CCC) short-term (0-36 months) and medium-term (3-10 years) credit guarantee programs GSM 102/103.

3. Language amending section 104(b) (1) of the Agricutural Trade Development and Assistance Act of 1954 (P.L. 480) to include U.S. wood and wood products as eligible for use in development projects funded through P.L. 480-generated local currency. This would also amend section 108 (i) of P.L. 480 to clarify that the construction of low- and medium- income housing and shelter should be considered as a private sector development activity and private enterprises investment for purposes of carrying out activities pursuant to Section III (Private Enterprise Promotion of the 1985 Food Security Act. This language has already been adopted in H.R. 3, Title III Export Enhancement, Section 314 (b), amendments to P.L. 480, (i) wood and wood products.

4. Language further clarifying wood products eligibilty for P.L. 480 Local Currency Program 104(b) (1) and other appropriate direct credit programs administered under PL 480 by amending section 106 (b) and 109.

5. Language specifying a marketing program to be carried out by the U.S. Forest Service's State and Private Forestry Program to help U.S. forest producers become more competitive at home and abroad. This program would provide badly needed market development assistance to augment the Foreign Agricultural Service (FAS) current program. Authority for the Forest Service to participate in marketing activities already exists, but an appropriation of $5 million is needed in the Interior appropriations, as well as authorizing language to clarify the scope of the program.

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To sum up the wood products industry position:

-- The objective of the Administration and the United States Congress is to provide support for exports and for industries like wood products which have a leading role in export market development;

-- The argument that wood products are manufactured not processed agricultural products has no validity;

-- Define wood products (including processed wood products such as plywood) as an agricultural product (including processed agricultural products) and clarify that agricultural products are eligible for the USDA Commodity Credit Corporation and Guarantee Credit Programs.

-- Direct that the Secretary of Agriculture make these credit programs available to importing countries for the agricultural products promoted under the USDA Foreign Market Development Program.

-- The wood industry's exports address one of the three most basic needs of developing countries -- the need for shelter -- the others being food and employment.

We urge your support for these essential financing and promotion programs designed to help solve chronic worldwide housing shortages while also reducing the burgeoning U.S. trade deficit.

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Congressman Fred Grandy (R-Ia)
OPENING STATEMENT
March 31, 1987

NOBODY IN THIS CONGRESS REPRESENTING AGRICULTURAL INTERESTS HAS MORE CONCERN THAN I REGARDING THE FINANCIAL STRESS IN FARMING. I CONGRATULATE THE CHAIRMAN FOR CONVENING THIS HEARING. I AM CONFIDENT THAT THE INFORMATION GENERATED BY THIS EFFORT WILL MAKE A POSITIVE CONTRIBUTION TOWARD THE DEBATE ON FARM POLICY OPTIONS.

THE FOCUS OF TODAY'S HEARING, OF COURSE, IS THE POLICY OPTION OF MANDATORY CONTROLS. OUR CHALLENGE, AS I SEE IT, IS TO GET OUT ON THE TABLE ALL THE IMPLICATIONS RELATIVE TO THE IMPLEMENTATION OF MANDATORY CONTROLS -- THE SAME APPROACH WHICH MUST BE USED IN THE ANALYSIS OF ALL FARM POLICY OPTIONS.

I PERSONALLY SEE MANDATORY CONTROLS AS A GOOD NEWS, BAD NEWS PROPOSITION. I CITE THREE SOURCES CONTRIBUTING TO THIS PERSPETIVE, ALL OF WHICH I WOULD LIKE TO SUBMIT FOR INCLUSION IN THIS HEARING RECORD. THOSE SOURCES ARE:

1) "COMPARATIVE ANALYSIS OF SELECTED POLICY OPTIONS FOR U.S. AGRICULTURE" (FAPRI STAFF REPORT #1-87, FEBRUARY 1987, FOOD AND AGRICULTURAL POLICY RESEARCH INSTITUTE, UNIVERSITY OF MISSOURI -- COLUMBIA AND IOWA STATE UNIVERSITY);

2) "ADVANTAGE, ARGENTINA" (FARMFUTURES MAGAZINE, MARCH 1987); AND

3) "FARMFARE REFORM AND MISEDUCATION OF LEAHY" (WARREN BROOKES, WASHINGTON TIMES, MARCH 23, 1987.

THE FORM OF MANDATORY CONTROLS ANALYZED CONCERNS THE GEPHARDT-HARKIN PROPOSAL.

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FIRST THE GOOD NEWS:

1) THE GEPHARDT-HARKIN PLAN WOULD CUT GOVERNMENT FARM SUBSIDY COSTS BY BETTER THAN 50 PERCENT OVER THE FIVE YEAR PERIOD 1987 TO 1991 COMPARED TO THE CONTINUATION OF THE FOOD SECURITY ACT OF 1985 (FSA 1985)

2) NET FARM INCOME IN 1972 DOLLARS WOULD BE 40 PERCENT HIGHER UNDER GEPHARDT-HARKIN PLAN OVER THIS SAME FIVE YEAR PERIOD THAN FSA 1985.

UNFORTUNATELY, A GREAT DEAL OF POLICY ANALYSIS AND RHETORIC STOPS AT THIS POINT.

SO NOW FOR THE BAD NEWS -- THE DARK SIDE OF MANDATORY CONTROLS:

1) ALL OF THE GOOD NEWS ABOVE IS CONTINGENT UPON THE FORMATION OF A MARKET-SHARING CARTEL AMONG CURRENT EXPORTERS TO MAINTAIN THE U.S. PARITY PRICES IN INTERNATIONAL MARKETS. HOWEVER, EVEN WITH A CARTEL, U.S. EXPORT LEVELS WOULD STILL DECLINE BY 20 TO 30 PERCENT.

2) BY 1990, THE GOVERNMENT COST SAVINGS AND FARM INCOME GAINS ARE MORE THAN OFFSET BY INCREASES IN CONSUMER FOOD EXPENDITURES.

3) THE GOVERNMENT COST OF THE MANDATORY PROGRAM IS PROJECTED TO RISE BEYOND 1995, WHILE THE COSTS OF THE OTHER ALTERNATIVES EVALUATED, INCLUDING THE FSA 1985, DECLINE.

4) BY 1995 THE LOSSES TO CONSUMERS IN TERMS OF FOOD EXPENDITURES ARE MORE THAN $25 BILLION GREATER THAN THE FARM COMBINED INCOME GAINS AND GOVERNMENT COST SAVINGS.

5) WHILE CROP PRODUCERS RECEIVE SUBSTANTIAL INCOME GAINS FROM THE MANDATORY PROGRAM, THE LIVESTOCK SECTOR OF U.S. AGRICULTURE WILL FACE A SEVERE COST-PRICE SQUEEZE.

6) THE MANDATORY PROGRAM REQUIRES THE IMPOSITION OF EEC-TYPE TARIFFS OR QUOTAS TO PROTECT DOMESTIC MARKETS.

7) IN THE ABSENCE OF A GLOBAL GRAIN CARTEL, MANDATORY CONTROLS WOULD RESULT IN U.S. AGRICULTURE SERVING ONLY THE DOMESTIC MARKET.

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8) ACCORDING TO AN OHIO STATE UNIVERSITY STUDY ARGENTINA CURRENTLY CAN PRODUCE CORN ALMOST $30 A TON CHEAPER THAN THE AVERAGE U.S. CORN BELT FARMER. UNDER MANDATORY CONTROLS U.S. FARM PRODUCTION EXPENSES WILL INCREASE ALMOST TWICE AS FAST AS COMPARED TO EXPECTED PRODUCTION COST INCREASES UNDER THE FOOD SECURITY ACT OF 1985.

9) QUOTED IN A WASHINGTON TIMES ARTICLE, ROBERT PAARLBERG, A HARVARD-WELLESLEY AGRICULTURAL ECONOMIST, SAID A MANDATORY SET-ASIDE OF 55 PERCENT OF LAND WOULD REDUCE U.S. GROSS NATIONAL PRODUCT BY $70.8 BILLION AND 2,125,000 JOBS WOULD BE LOST -- A FIGURE NEARLY EQUAL TO THE TOTAL NUMBER OF FARMERS IN THE UNITED STATES; 553,000 OF THESE LOST JOBS WOULD COME FROM THE FARM PRODUCTION SECTOR ITSELF.

FINALLY, I SUBMIT FOR THE RECORD AN ARTICLE BY OKLAHOMA STATE UNIVERSITY PROFESSOR LUTHER TWEETEN TITLED "MANDATORY SUPPLY CONTROL - A VIABLE ALTERNATIVE?" DR. TWEETEN CONCLUDES IN HIS PAPER THAT MANDATORY CONTROLS REDUCE EFFICIENCY, ARE INEQUITABLE WITH RESPECT TO LOW-INCOME CONSUMERS AND SMALL FARMERS, AND THAT EVENUTALLY ANY INCOME BENEFITS OF MANDATORY CONTROLS WOULD BE LOST OVER TIME.

MR. CHAIRMAN, I KNOW IT IS EASY AND CHEAP TO BE CRITICAL. I CONGRATULATE THE JUNIOR SENATOR FROM IOWA FOR HIS SENSITIVITY AND LEADERSHIP IN FARM POLICY. HIS MANDATORY CONTROL PROPOSAL IS ONE FORM OF A RESPONSE TO THE FINANCIAL CRISIS FACING OUR IOWA CONSTITUENCY. AND I'M SURE HE WOULD AGREE THAT EVERY FARM POLICY OPTION MUST BE SUBJECT TO A FULL AND COMPLETE ACCOUNTING. I WOULD ONLY ADD TO THIS DILEMMA A RECENT DES MOINES REGISTER POLL SHOWING THAT 71 PERCENT OF FARMERS POLLED DIDN'T LIKE CURRENT FARM POLICY LAW -- THE FOOD SECURITY ACT OF 1985 -- AND NOW YESTERDAY'S WALL STREET JOURNAL STORY WHICH CARRIED THE TITLE "MANY FARMERS WHO HAD SOUGHT CHANGES IN 1985 MEASURE NOW WANT IT LEFT INTACT." THESE ARE CHALLENGING TIMES.

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LEON E. PANETTA, CALIFORNIA
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Committee on Agriculture
Subcommittee on Domestic Marketing, Consumer Relations, and Nutrition
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Washington, DC 20515

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LYNN F. GALLAGHER
MINORITY CONSULTANT

March 30, 1987

AGRICULTURAL AID AND TRADE MISSIONS ACT

Dear Colleague:

Last week I introduced a bill, H.R. 1809, to encourage greater use of existing U.S. agricultural aid and trade programs in order to rebuild our export markets. This bill seeks to develop export markets in developing countries by better coordinating our food aid and agricultural trade programs.

Last year, U.S. agricultural exports plummeted from a peak of $43.8 billion in 1981 to $26.3 billion, causing a devastating impact on our agricultural economy and rural communities. And despite federal expenditures of more than $25 billion on farm programs in fiscal year 1986, thousands of family farms have been foreclosed.

Past experience has shown that developing countries can be excellent export markets, and markets which expand as the economies in those countries improve. However, market development in these countries requires careful coordination of food aid and export programs, something that is not being done today.

H.R. 1809 would provide for the following:

1) establish agricultural aid and trade missions to 15 low- to mid-income countries to develop country-by-country strategies for economic and market development;

2) amend the current P.L.480 and Section 416 programs so private voluntary organizations (PVOs) and cooperatives can use local currencies generated from the sale or barter of food aid products in carrying out overseas development projects;

3) increase the minimum tonnage under Section 416 for grains and oilseeds from 500,000 to 800,000 mt and for dairy products from 150,000 to 200,000 mt;

4) strengthen USDA's Foreign Agricultural Service by adding 50 new employees;

5) put more emphasis on the need to use existing food aid, trade, and export credit programs in financing infrastructure development in importing countries by requiring the Secretary to report annually to Congress on the progress of implementing these goals.

These provisions would allow us to take a positive step towards rebuilding our market potential abroad and improving our agricultural economy and I urge you to support this bill. If you are interested in co-sponsoring this legislation, please call my Subcommittee office at 225-0301.

Sincerely,

Leon

LEON E. PANETTA
Chairman

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TESTIMONY BY CONGRESSMAN RICHARD STALLINGS FOR
USTA CLAYTON YEUTTER AT AG HEARING 3-31-88

Mr. Yeutter, first let me say that I strongly support the intent of this trade legislation. The U.S. trade policy has been sorely lacking in consistency and ability to promote and protect U.S. trade and domestic commerce. I am somewhat concerned about retaliatory measures by nations which import U.S. products; however, the time is past when the U.S. will continue to be the promoter of free trade at our own expense. We must promote fair trade, and this requires a more aggressive, cohesive, and directed policy which will enable your office, the U.S. Trade Representative, to use a trade tool with real teeth.

Mr. Yeutter, I would like to go on record and emphasize those areas of this trade bill which apply directly to agriculture.

First, Section 301(d). This section requires the President to provide a public notice before taking any action restricting imports under section 301. The notice must include a statement regarding the likely impact of an import-restricting action on U.S. agriculture exports.

This is a very important provision in this trade bill. Agriculture has been ignored too long as a vital interest in domestic and international U.S. policy. In the past decade the U.S. was a major surplus contributor toward offsetting the U.S. trade deficit. The consideration this provision provides to agriculture is not only timely, but essential.

Second, this bill contains a section which requires the USTR to "fast track" perishable commodity imports and their effect on

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domestically produced perishables. This also, is a needed provision in this bill. Perhaps the requirement to monitor the retaliatory effects of this measure on U.S. agriculture exports should also apply here.

Addressing another item, I would like to draw your attention to the fact that several bills have already been introduced in Congress which would limit the imports of casein into the U.S. As you are well aware, the dairy policy in this country has just experienced a rocking adjustment through the dairy termination program. Casein imports simply do not coincide with the continuing efforts to adjust our own domestic production. We are stock piling milk products and giving much of it away in foreign assistant programs. I support these bill and the inclusion of strong action in the bill.

A final item in the trade bill of primary importance to the agriculture industry in the U.S. is the sugar policy considerations. Let me emphasize my support for the current sugar policy, and the provision in the bill which would require the Secretary of Agriculture and the Commissioner of Customs to study the circumvention of our sugar quota system through the importation of sugar used in blended products.

THANK YOU MR. CHAIRMAN, THAT IS ALL I HAVE.

(Responses to questions submitted by Congressman Stallings follow:)

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THE UNITED STATES TRADE REPRESENTATIVE
Executive Office of the President
Washington, D.C. 20506

April 21, 1987

The Honorable Richard H. Stallings
U.S. House of Representatives
Washington, D. C. 20515

Dear Congressman Stallings:

Thanks for your letter of April 6 and your kind comments regarding my recent testimony before the House Committee on Agriculture and our actions on semiconductors.

I'm pleased to provide the following responses to the questions you posed in your letter:

1. Q. What, in your estimation, is the likelihood of Japan retaliating against U.S. agriculture products as a result of the President's decision to impose sanctions arising out of the semiconductor dispute?

A. In my opinion, the likelihood of such a response by Japan is minimal. Clearly, there are strong pressures on both sides of the Pacific to keep this dispute from spreading to other sectors, and it really wouldn't be in Japan's interest to retaliate. Our bilateral trade relationship is just too large and too important to us both to risk escalating this limited dispute into a full scale trade war.

2. Q. Can you provide me with an update on that situation (Korean restrictions on imports of U.S. potatoes)? And, what do you perceive as the likelihood of alfalfa trade with Korea and other Pacific-Rim countries?

A. Lifting of the Korean ban on imports of frozen french fried potatoes remains a high priority for us. We're having trade talks with the Koreans in Seoul this week, and the import ban on potatoes is one of the major issues we'll raise. We'll also be raising alfalfa. The Koreans have indicated that they would permit imports of alfalfa. We need to know more about their specific intentions. In general, my feeling is that we can expand sales of alfalfa products in Korea and other Pacific-Rim countries, but government-imposed market access restrictions are going to be a continual problem.

3. Q. Do you support this legislation (amending the Meat Import Act of 1979 to include lamb)? Have any discussions between USTR and Australia and New Zealand taken place on this issue?

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The Honorable Richard H. Stallings
April 21, 1987
Page Two

A. The Administration hasn't officially taken a position yet on the provision in H.R. 3 which would include lamb in the products covered by the Meat Import Act of 1979. My personal view is that such legislation is not in the long-term interests of U.S. agriculture. The establishment of U.S. restrictions on imports of lamb would be totally inconsistent with, and could be seriously damaging to, our efforts to eliminate Japan's beef quotas. Furthermore, it would directly contradict U.S. efforts to eliminate market access restrictions in the context of the negotiations on agriculture in the Uruguay Round.

Thanks for your interest and support. I look forward to working with you on these and other trade issues.

Sincerely,

SIGNED

Clayton Yeutter

CY:cdt

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100TH CONGRESS
1ST SESSION

H. R. 3

To enhance the competitiveness of American industry, and for other purposes.

IN THE HOUSE OF REPRESENTATIVES

JANUARY 6, 1987

Mr. GEPHARDT (for himself, Mr. BONKER, Mr. GIBBONS, Mr. ROSTENKOWSKI, Mr. FASCELL, Mr. DINGELL, Mr. ST GERMAIN, Mr. DE LA GARZA, Mr. HAWKINS, Mr. COELHO, Mr. PICKLE, Mr. RANGEL, Mr. STARK, Mr. FORD of Tennessee, Mr. DOWNEY of New York, Mr. GUARINI, Mr. RUSSO, Mr. PEASE, Mr. MATSUI, Mr. ANTHONY, Mr. FLIPPO, Mr. DORGAN of North Dakota, Mrs. KENNELLY, Mr. DONNELLY, Mr. COYNE, Mr. HUBBARD, Mr. KLECZKA, Mr. KANJORSKI, Mr. LUKEN, THOMAS A., Mr. SYNAR, Mr. MICA, Mr. MANTON, Ms. OAKAR, Mr. LAFALCE, Mr. LEVIN of Michigan, Ms. KAPTUR, Mr. FAUNTROY, Mr. EDREICH, Mr. FORD of Michigan, Mr. CLAY, Mr. BIAGGI, Mr. MURPHY, Mr. KILDEE, Mr. MARTINEZ, Mr. HAYES of Illinois, Mr. PERKINS, Mr. ECHART, Mr. DOWDY of Mississippi, Mr. FLORIO, Mr. FRANK, Mr. ROSE, Mr. JONES of Tennessee, Mr. MURTHA, Mr. WILLIAMS, Mr. ACKERMAN, Mr. ALEXANDER, Mr. ANDERSON, Mr. ANNUNZIO, Mr. APPLEGATE, Mr. ATKINS, Mr. BARNARD, Mr. BENNETT, Mr. BEVILL, Mr. BILBRAY, Mrs. BOGGS, Mr. BOLAND, Mr. BONER of Tennessee, Mr. BONIOR of Michigan, Mr. BORSKI, Mr. BOUCHER, Mrs. BOXER, Mr. BROOKS, Mr. BRYANT, Mrs. BYRON, Mr. BUSTAMANTE, Mr. CAMPBELL, Mr. CARDIN, Mr. CARPER, Mr. CHAPMAN, Mr. CLARKE, Mr. COLEMAN of Texas, Mrs. COLLINS, Mr. CONYERS, Mr. COOPER, Mr. CROCKETT, Mr. DANIEL, Mr. DERRICK, Mr. DURBIN, Mr. DWYER of New Jersey, Mr. EDWARDS of California, Mr. EVANS, Mr. FAZIO, Mr. FEIGHAN, Mr. FOGLIETTA, Mr. FROST, Mr. GAYDOS, Mr. GEJDENSON, Mr. GLICKMAN, Mr. GONZALEZ, Mr. GRANT, Mr. GRAY of Illinois, Mr. GRAY of Pennsylvania, Mr. HALL of Ohio, Mr. HALL of Texas, Mr. HARRIS, Mr. HEFNER, Mr. HERTEL, Mr. HOCHBRUECKNER, Mr. HOYER, Mr. HUCKABY, Mr. HUGHES, Mr. JACOBS, Mr. JONES of North Carolina, Mr. JONTZ, Mr. KASTENMEIER, Mr. KOLTER, Mr. KOSTMAYER, Mr. LANCASTER, Mr. LANTOS, Mr. LEHMAN of California, Mr. LELAND, Mr. LIPINSKI, Mrs. LLOYD, Mr. MACKAY, Mr. MCCLOSKEY, Mr. MARKEY, Mr. MAVROULES, Mr. MAZZOLI, Mr. MILLER of California, Mr. MINETA, Mr. MOAKLEY, Mr. MOLLOHAN, Mr. MOODY, Mr. MORRISON of Connecticut, Mr. NAGLE, Mr. NATCHER, Mr. NELSON of Florida, Mr. NICHOLS, Mr. NOVAK, Mr. OBERSTAR, Mr. OBEY, Mr. OLIN, Mr. ORTIZ, Mr. OWENS of New York, Mr. PANETTA, Mr. PEPPER, Mr. PRICE of North Carolina, Mr. RAHALL, Mr. RICHARDSON, Mr.

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ROBINSON, Mr. RODINO, Mr. ROE, Mr. ROEMER, Mr. SABO, Mr. SAWYER, Mrs. SCHROEDER, Mr. SHARP, Mr. SKELTON, Mr. SMITH of Florida, Mr. STAGGERS, Mr. STALLINGS, Mr. STOKES, Mr. STRATTON, Mr. SWIFT, Mr. TAUZIN, Mr. TORRES, Mr. TORRICELLI, Mr. TOWNS, Mr. TRAFICANT, Mr. TRAXLER, Mr. UDALL, Mr. VALENTINE, Mr. VENTO, Mr. VISCLOSKY, Mr. VOLKMER, Mr. WALGREN, Mr. WATKINS, Mr. MR. WEISS, Mr. WHITTEN, Mr. WISE, Mr. WOLPE, and Mr. YATRON) introduced the following bill; which was referred jointly to the Committee on Ways and Means, Agriculture, Banking, Finance and Urban Affairs, Education and Labor, Energy and Commerce, and Foreign Affairs

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A BILL

To enhance the competitiveness of American industry, and for other purposes.

1 *Be it enacted by the Senate and House of Representa-*
2 *tives of the United States of America in Congress assembled,*

3 **SECTION 1. SHORT TITLE AND TABLE OF CONTENTS.**

4 (a) SHORT TITLE.—This Act may be cited as the
5 "Trade and International Economic Policy Reform Act of
6 1987".

7 (b) TABLE OF CONTENTS.—

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TITLE VI—AGRICULTURAL TRADE

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Sec. 634. Import inventory.
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Subtitle C—Miscellaneous

Sec. 651. Allocation of certain milk.
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4 # TITLE VI—AGRICULTURAL TRADE
5 ## Subtitle A—Improvement of Agricul-
6 tural Trade Policy and Market De-
7 velopment Activities

8 **SEC. 601. PURPOSE OF SUBTITLE.**

9 It is the purpose of this subtitle to increase the effective-
10 ness of the Department of Agriculture in agricultural trade
11 policy formulation and implementation and in assisting
12 United States agricultural producers participate in interna-
13 tional agricultural trade, by reorganizing and strengthening
14 the operations of the Department of Agriculture in these
15 areas.

16 **SEC. 602. DESIGNATION OF THE DEPARTMENT OF AGRICUL-**
17 **TURE AS LEAD AGENCY FOR AGRICULTURAL**
18 **TRADE.**

19 (a) IN GENERAL.—Subject to section 141(c)(1) of the
20 Trade Act of 1974, and except as provided in subsection (b),
21 the Department of Agriculture shall have primary responsi-
22 bility within the executive branch of the Federal Government
23 with respect to all matters concerning agricultural trade and
24 agricultural trade policy.

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1 (b) EXCEPTION.—The designation made in subsection
2 (a) does not limit the exercise by the Department of Com-
3 merce and the International Trade Commission of the re-
4 sponsibilities and authority assigned them with respect to the
5 regulation of United States agricultural imports.

6 SEC. 603. CONSULTATION BY THE SECRETARY OF AGRICUL-
7 TURE.

8 The Secretary of Agriculture shall, through such mech-
9 anism as the President shall establish by executive order,
10 consult with the appropriate officials of the other agencies of
11 the Federal Government to coordinate actions and programs
12 of such agencies affecting agricultural trade policy with the
13 programs of the Department of Agriculture and with the ag-
14 ricultural trade policy of the United States.

15 SEC. 604. REORGANIZATION OF THE DEPARTMENT OF AGRI-
16 CULTURE.

17 (a) UNDER SECRETARY FOR TRADE AND INTERNA-
18 TIONAL AFFAIRS.—(1) The President, by and with the
19 advice and consent of the Senate, shall appoint in the De-
20 partment of Agriculture an Under Secretary of Agriculture
21 for Trade and International Affairs (hereinafter in this title
22 referred to as the "Under Secretary for Trade").

23 (2) The Under Secretary for Trade shall—

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1 (A) assume the duties relating to international af-
2 fairs of the Under Secretary of Agriculture for Interna-
3 tional Affairs and Commodity Programs;
4 (B) serve as a member of—
5 (i) the Board of Directors of the Commodity
6 Credit Corporation;
7 (ii) the Trade Policy Review Group, or any
8 successor organization; and
9 (iii) the Subcommittee on Food Aid of the
10 Development Coordination Committee, or any
11 successor organization;
12 (C) direct—
13 (i) all programs and duties performed by the
14 Office of International Cooperation and Develop-
15 ment;
16 (ii) all programs or duties performed by the
17 International Transportation Service Branch of
18 the Office of Transportation; and
19 (iii) such programs or duties currently as-
20 signed to the Forest Service, the Soil Conserva-
21 tion Service, the Food Safety and Inspection
22 Service, the Federal Grain Inspection Service, the
23 Animal and Plant Health Inspection Service, and
24 other agencies within the Department of Agricul-
25 ture as the Secretary of Agriculture finds to be di-

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1 rectly related to agricultural export sales, market
2 development, and relevant technical assistance;
3 and
4 (D) perform such other functions and duties as
5 may be required by law or prescribed by the Secretary
6 of Agriculture.
7 (b) UNDER SECRETARY FOR COMMODITY PRO-
8 GRAMS.—(1) The President, by and with the advice and con-
9 sent of the Senate, shall appoint in the Department of Agri-
10 culture an Under Secretary of Agriculture for Commodity
11 Programs.
12 (2) The Under Secretary of Agriculture for Commodity
13 Programs shall—
14 (A) assume the duties relating to commodity pro-
15 grams of the Under Secretary of Agriculture for Inter-
16 national Affairs and Commodity Programs;
17 (B) serve as a member of the Board of Directors
18 of the Commodity Credit Corporation; and
19 (C) perform such other functions and duties as
20 may be required by law or prescribed by the Secretary
21 of Agriculture.
22 (c) CONFORMING REPEAL.—Section 501(a) of the Agri-
23 cultural Trade Act of 1978 (7 U.S.C. 2211a(a)) is repealed.
24 (d) ADDITIONAL ASSISTANT SECRETARIES OF AGRI-
25 CULTURE.—The President, by and with the advice and con-

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1 sent of the Senate, may appoint in the Department of Agri-
2 culture up to two additional Assistant Secretaries of Agricul-
3 ture to assist the Under Secretary for Trade and the Under
4 Secretary of Agriculture for Commodity Programs.

5 **SEC. 605. CONFORMING AMENDMENTS TO TITLE 5, UNITED**
6 **STATES CODE.**

7 Title 5, United States Code, is amended by—
8 (1) in section 5314, striking out
9 "Under Secretary of Agriculture for International
10 Affairs and Commodity Programs."
11 and inserting in lieu thereof the following:
12 "Under Secretary of Agriculture for Commodity
13 Programs.
14 "Under Secretary of Agriculture for Trade and
15 International Affairs."; and
16 (2) in section 5315, striking out "Assistant Secre-
17 taries of Agriculture (7)." and inserting in lieu thereof
18 "Assistant Secretaries of Agriculture (9).".

19 **SEC. 606. TRANSFER OF ENTITIES TO THE FOREIGN AGRICUL-**
20 **TURAL SERVICE AND ESTABLISHMENT OF COM-**
21 **MODITY DIVISION.**

22 (a) TRANSFER OF ENTITIES.—The International Eco-
23 nomics Division of the Economic Research Service, and the
24 World Agricultural Outlook Board, of the Department of Ag-

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1 riculture shall be entities within the Foreign Agricultural
2 Service of the Department of Agriculture.

3 (b) ESTABLISHMENT OF COMMODITY DIVISION.—(1)
4 The Secretary shall establish within the Foreign Agricultural
5 Service a commodity division to promote value-added agri-
6 cultural products not covered by cooperator agreements and
7 to help to develop a cooperator organization to support the
8 marketing role of the division.

9 (2) The work and activities of such division shall include
10 market analysis for products described in paragraph (1), as
11 well as market development.

12 (3) Any cooperator organization developed under para-
13 graph (1) shall be as broadly based as possible and shall in-
14 clude export trading companies and export management com-
15 panies dealing in value-added agricultural products, as well
16 as manufacturers and distributors of individual brands and
17 product lines of such products.

18 **SEC. 607. ESTABLISHMENT OF THE GENERAL SALES MANAG-**
19 **ER'S OFFICE.**

20 (a) ESTABLISHMENT.—The Secretary of Agriculture
21 shall establish in the Department of Agriculture an office to
22 be known as the "Office of the General Sales Manager" and
23 appoint a General Sales Manager to head such office. The
24 General Sales Manager shall be under the direction of the
25 Under Secretary for Trade.

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1 (b) DUTIES.—The General Sales Manager shall assume
2 responsibility for all programs or duties performed by the
3 Foreign Agricultural Service with respect to—
4 (1) export sales;
5 (2) market development;
6 (3) agricultural trade offices; and
7 (4) the requirements of titles I and III of the Ag-
8 ricultural Trade Development and Assistance Act of
9 1954 (7 U.S.C. 1691 et. seq.).

10 SEC. 608. ESTABLISHMENT OF AN OFFICE TO MONITOR TRADE
11 PRACTICES.

12 (a) ESTABLISHMENT WITHIN THE DEPARTMENT OF
13 AGRICULTURE.—The Secretary of Agriculture shall estab-
14 lish an office within the Department of Agriculture to carry
15 out the duties described in subsection (b) under the direction
16 of the Under Secretary for Trade.
17 (b) DUTIES.—The office established under subsection
18 (a) shall—
19 (1) continuously monitor and study trade practices
20 carried out by other nations to promote the export of
21 agricultural commodities and products; and
22 (2) submit quarterly reports of its findings to the
23 Secretary of Agriculture.
24 (c) REPORTING BY THE SECRETARY.—(1) Within 15
25 days after receiving a report under subsection (b), the Secre-

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1 tary of Agriculture shall submit such report to the commit-
2 tees listed in paragraph (2), together with the Secretary's
3 findings and recommendations with respect to the level of
4 subsidies provided by other nations and the United States to
5 promote the export of agricultural commodities and products.
6 (2) Items described under paragraph (1) shall be
7 submitted to—
8 (A) the Committee on Agriculture, Nutrition, and
9 Forestry, the Committee on Foreign Relations, and the
10 Committee on Finance of the Senate; and
11 (B) the Committee on Agriculture, the Committee
12 on Foreign Affairs, and the Committee on Ways and
13 Means of the House of Representatives.

14 **SEC. 609. ESTABLISHMENT OF AN OFFICE TO PROVIDE AS-**
15 **SISTANCE TO VICTIMS OF UNFAIR TRADE**
16 **PRACTICES.**

17 (a) ESTABLISHMENT WITHIN THE DEPARTMENT OF
18 AGRICULTURE.—The Secretary of Agriculture shall estab-
19 lish an office within the Department of Agriculture to carry
20 out the duties described in subsection (b) under the direction
21 of the Under Secretary for Trade.
22 (b) DUTIES.—The office established under subsection
23 (a) shall take the following actions with respect to United
24 States citizens and organizations damaged by unfair agricul-
25 tural trade practices and policies:

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1 (1) The Office shall assist such persons in prepar-
2 ing cases before—
3 (A) the United States Trade Representative;
4 (B) the International Trade Commission;
5 (C) the United States Department of Com-
6 merce;
7 (D) the Court of International Trade; and
8 (E) any other similar agency.
9 (2) The Office shall provide and update informa-
10 tion to such persons regarding the incidence and sever-
11 ity of such practices and policies.
12 (3) The Office shall inform such persons of any
13 adverse effect on them caused by such practices and
14 policies of which they are not aware.
15 (4)(A) The Office shall report information relating
16 to such unfair trade practices and the effects of such
17 practices to the appropriate Federal agencies, together
18 with a recommendation by the Secretary of Agriculture
19 with regard to what actions should be initiated under
20 the trade laws.
21 (B) Upon receipt of such information and recom-
22 mendation, the appropriate Federal agencies shall con-
23 sult with the Secretary of Agriculture with regard to
24 what actions, if any, will be initiated and the reasons
25 therefor.

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1 (c) REPORT.—The Secretary of Agriculture shall
2 submit, with the information described in section 608(c), a
3 report of the assistance provided under this section.
4 (d) COORDINATION.—The Office shall coordinate its ac-
5 tivities with the Fair Trade Advocates Branch established
6 under section 141(g) of the Trade Act of 1974.

7 SEC. 610. PROVISION OF TECHNICAL ASSISTANCE IN TRADE
8 NEGOTIATIONS.

9 The Secretary of Agriculture shall provide technical
10 services to the United States Trade Representative on mat-
11 ters pertaining to agricultural trade and with respect to inter-
12 national negotiations on issues related to agricultural trade.

13 SEC. 611. LONG TERM AGRICULTURAL TRADE STRATEGY RE-
14 PORTS.

15 (a) PREPARATION; MATTERS TO BE INCLUDED.—(1)
16 The Secretary of Agriculture shall prepare annually, and the
17 President shall submit together with the budget for each
18 fiscal year, a Long Term Agricultural Trade Strategy Report
19 establishing recommended policy and spending goals for
20 United States agricultural trade and exports for 1-year, 5-
21 year, and 10-year periods, beginning on October 1 of such
22 fiscal year. Each such report shall include the following:
23 (A) Findings with respect to trends in the compar-
24 ative position of the United States and other nations in
25 the export of agricultural commodities and products,

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1 organized by major commodity group and including a
2 comparative analysis of the cost of production of such
3 commodities and products.

4 (B) Findings with respect to new developments in
5 research conducted by other nations that may affect
6 the competitiveness of United States agricultural com-
7 modities and products.

8 (C) Findings and recommendations with respect to
9 the marketing in nonmarket economies of United
10 States agricultural commodities and products.

11 (D) As appropriate, the agricultural trade goals
12 for each agricultural commodity and value-added prod-
13 uct produced in the United States for the period in
14 question, expressed in both physical volume and mone-
15 tary value.

16 (E) Recommended Federal policy and programs to
17 achieve the agricultural trade goals.

18 (F) Recommended levels of Federal spending on
19 international programs and activities of the Department
20 of Agriculture to meet the agricultural trade goals.

21 (G) Recommended levels of Federal spending on
22 programs and activities of agencies other than the De-
23 partment of Agriculture to meet the agricultural trade
24 goals.

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1 (H) Recommended long-term strategies for growth
2 in agricultural trade and exports—
3 (i) taking into account United States com-
4 petitiveness, trade negotiations, and international
5 monetary and exchange rate policies; and
6 (ii) including specific recommendations with
7 respect to export enhancement programs (includ-
8 ing credit programs and export payment-in-kind
9 programs), market development activities, and for-
10 eign agricultural and economic development as-
11 sistance activities needed to implement such strat-
12 egies.
13 (2) Provisions of each Long Term Agricultural Trade
14 Strategy Report that relate to recommended levels of spend-
15 ing on international activities of the Department of Agricul-
16 ture for the upcoming fiscal year shall be treated as the
17 President's annual budget submission to Congress for such
18 programs for such fiscal year, and shall be submitted in addi-
19 tion to the budget request for other programs of the Depart-
20 ment of Agriculture for such fiscal year.
21 (3) The President shall include in each Long Term Agri-
22 cultural Trade Strategy Report recommendations for such
23 changes in legislation governing international programs of
24 the Department of Agriculture as are required to meet the
25 long term goals established in the Report.

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1 (b) IDENTIFICATION OF CHANGES THAT MAY AFFECT
2 PREVIOUS REPORTS.—The President, in each succeeding
3 annual Long Term Agricultural Trade Strategy Report after
4 the first such report, shall identify any such recommendations
5 that might modify the long term policy contained in any pre-
6 vious such report.

7 (c) ESTABLISHMENT OF OFFICE.—The Secretary of
8 Agriculture shall establish within the Department of Agricul-
9 ture an Office of Agricultural Trade Policy Planning and
10 Evaluation under the direction of the Under Secretary for
11 Trade. Such office shall coordinate the preparation of the
12 Long Term Agricultural Trade Strategy Report.

13 SEC. 612. DECLARATION OF POLICY RESPECTING FOOD AID
14 AND MARKET DEVELOPMENT.

15 It is the policy of the United States to use food aid and
16 agriculturally related foreign economic assistance programs
17 more effectively to develop markets for United States agri-
18 cultural commodities and products.

19 SEC. 613. REPORTING BY THE SECRETARY OF AGRICULTURE.

20 (a) REPORTING ON CERTAIN PROGRAMS.—The Secre-
21 tary of Agriculture, after consultation with the Administrator
22 of the United States Agency for International Development,
23 shall report annually to Congress on the extent that food aid
24 and agriculturally related foreign economic assistance pro-
25 grams of the previous year, other than direct feeding or

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1 emergency food aid programs, that are administered by Fed-
2 eral agencies or by nongovernmental entities serve direct
3 market development objectives for United States agricultural
4 commodities and products.

5 (b) SCOPE OF REPORTING REQUIREMENT.—The pro-
6 grams referred to in subsection (a) include—

7 (1) programs under the Agricultural Trade Devel-
8 opment and Assistance Act of 1954 (7 U.S.C. 1691 et
9 seq.);

10 (2) programs under section 416 of the Agricultur-
11 al Act of 1949 (7 U.S.C. 1431) and the Food for
12 Progress Act of 1985 (7 U.S.C. 1736o); and

13 (3) technical and economic assistance programs
14 carried out by United States Agency for International
15 Development.

16 SEC. 614. ESTABLISHMENT OF OFFICE OF FOOD AID POLICY.

17 (a) ESTABLISHMENT.—The Secretary of Agriculture
18 shall establish in the Department of Agriculture the Office of
19 Food Aid Policy (hereinafter in this section referred to as the
20 "Office").

21 (b) DIRECTOR.—The Secretary of Agriculture shall ap-
22 point a director of the Office who shall—

23 (1) serve under the direction of the General Sales
24 Manager;

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1 (2) develop in cooperation with the director of the
2 Office of Agricultural Trade Policy Planning and Eval-
3 uation a comprehensive strategy for coordinating agri-
4 culturally related foreign economic assistance, food aid,
5 and market development objectives for United States
6 agricultural commodities and products;
7 (3) monitor the compliance of food aid programs
8 and policies of Federal agencies and related entities
9 with the market development objectives of the Depart-
10 ment of Agriculture; and
11 (4) serve as the principal staff representative of
12 the Secretary of Agriculture in deliberations of the
13 staff working group of the Subcommittee on Food Aid
14 of the Development Coordination Committee.

15 SEC. 615. COMMODITIES FOR COOPERATOR ORGANIZATIONS.

16 The Secretary of Agriculture is authorized to make
17 available to cooperator organizations commodities owned by
18 the Commodity Credit Corporation, which shall be used by
19 such cooperators in projects designed to expand markets for
20 United States agricultural commodities and products.

21 SEC. 616. DEPARTMENT OF AGRICULTURE CONTRACT AU-
22 THORITY FOR INDIVIDUALS ABROAD.

23 The Secretary of Agriculture may contract with individ-
24 uals outside the United States for personal services to be
25 performed outside the United States. Such individuals shall

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1 not be regarded as employees of the United States Govern-
2 ment under any law, including any law administered by the
3 Office of Personnel Management.

4 SEC. 617. LIMITATION ON SPENDING AUTHORITY.

5 Any new spending authority created by the amendments
6 made by section 605 shall be effective for any fiscal year only
7 to the extent provided for in advance in appropriation Acts.

8 SEC. 618. EXPORT ENHANCEMENT PROGRAM.

9 Section 1127(b) of the Food Security Act of 1985 (7
10 U.S.C. 1736v) is amended by—

11 (1) striking out paragraph (2) and inserting in lieu
12 thereof the following:

13 "(2) shall, to the extent that agricultural commod-
14 ities and products thereof are to be provided to foreign
15 purchasers during any fiscal year, give priority to all
16 interested foreign purchasers who—

17 "(A) have traditionally purchased United
18 States agricultural commodities and the products
19 thereof; and

20 "(B) continue or begin to purchase such com-
21 modities and the products thereof on an annual
22 basis in quantities equal to or greater than the
23 level of purchases in a previous representative
24 period;";

25 (2) striking out "and" at the end of paragraph (4);

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1 (3) striking out the period at the end of paragraph
2 (5) and inserting "; and" in lieu thereof; and
3 (4) adding at the end the following:
4 "(6) shall report to the Committee on Agriculture
5 and the Committee on Foreign Affairs of the House of
6 Representatives and the Committee on Agriculture,
7 Forestry, and Nutrition of the Senate every 30 days a
8 current list of countries provided agricultural commod-
9 ities and products under this section and a justification
10 for participation in this section.".

11 SEC. 619. IMPLEMENTATION OF SECTIONS 1129 AND 1167 OF
12 THE FOOD SECURITY ACT OF 1985.

13 It is the sense of Congress that the Secretary of Agri-
14 culture should expedite the implementation of sections 1129
15 and 1167 of the Food Security Act of 1985 (Public Law 99–
16 198), relating to the barter of agricultural commodities. Con-
17 gress recognizes the importance of barter programs in ex-
18 panding agricultural trade, and emphasizes this importance to
19 the Secretary.

20 Subtitle B—Domestic Markets for Ag-
21 ricultural Commodities and Prod-
22 ucts

23 SEC. 631. STUDY RELATING TO HONEY.

24 (a) STUDY.—The Secretary of Agriculture shall conduct
25 a study to determine the effect of imported honey on United

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1 States honey producers, the availability of honey bee pollina-
2 tion within the United States, and whether imports of honey
3 tend to interfere with or render ineffective the honey price
4 support program of the Department of Agriculture.

5 (b) REPORT.—Not later than 60 days after the date of
6 the enactment of this Act, the Secretary shall report the re-
7 sults of such study to the Committee on Agriculture and the
8 Committee on Ways and Means of the House of Representa-
9 tives and to the Committee on Agriculture, Nutrition, and
10 Forestry and the Committee on Finance of the Senate.

11 SEC. 632. ROSE STUDY AND REPORT.

12 (a) STUDY.—The Secretary of Agriculture, in conjunc-
13 tion with the United States Trade Representative, not later
14 than 120 days after the date of enactment of this Act, shall
15 complete a study—

16 (1) to determine the effect of rose imports during
17 the period beginning January 1, 1982, and ending with
18 the most recent calendar quarter for which information
19 is available, into the United States on the domestic
20 rose growing industry; and

21 (2) to provide an economic analysis of factors of
22 production and marketing of such imports.

23 (b) REPORT.—The Secretary shall report the results of
24 the study conducted under subsection (a), as soon as the
25 study is completed, to the Committee on Agriculture and the

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1 Committee on Ways and Means of the House of Representa-
2 tives and the Committee on Agriculture, Nutrition, and For-
3 estry and the Committee on Finance of the Senate.

4 **SEC. 633. DETERMINING MATERIAL INTERFERENCE CAUSED**
5 **BY IMPORTED TOBACCO.**

6 Section 22(a) of the Agricultural Adjustment Act (7
7 U.S.C. 624(a)), reenacted with amendments by the Agricul-
8 tural Marketing Agreement Act of 1937, is amended by
9 adding at the end thereof the following: "For purposes of any
10 investigation conducted with respect to tobacco, or articles
11 containing tobacco, imported into the United States, the
12 Commission shall take into account contributions and assess-
13 ments imposed under sections 106A and 106B of the Agri-
14 cultural Act of 1949 (7 U.S.C. 1445–1, 1445–2) on tobacco
15 producers in determining whether such imported tobacco or
16 articles materially interfere with the tobacco price support
17 program carried out by the Department of Agriculture.".

18 **SEC. 634. IMPORT INVENTORY.**

19 (a) COMPILATION AND REPORT ON IMPORTS.—The
20 Secretary of Agriculture, in consultation with the Secretary
21 of Commerce, the International Trade Commission, the
22 United States Trade Representative, and any other appropri-
23 ate Federal agency, shall compile and report to the public
24 statistics on the total value and quantity of imported raw and
25 processed agricultural products.

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1 (b) COMPILATION AND REPORT ON CONSUMPTION.—
2 The Secretary shall also compile and report to the public
3 data on the total amount of production and consumption of
4 domestically produced raw and processed agricultural
5 products.

6 (c) ISSUING OF DATA.—The reports required by this
7 section shall be made in a format that correlates statistics for
8 the quantity and value of imported agricultural products to
9 the production and consumption of domestic agricultural
10 products. The Secretary shall issue such reports on a quar-
11 terly basis.

12 SEC. 635. SENSE OF CONGRESS—ACTION IN RESPONSE TO
13 FOREIGN IMPORT RESTRICTIONS ON UNITED
14 STATES CITRUS FRUITS AND BEEF PRODUCTS.

15 (a) FINDINGS.—Congress finds that—

16 (1) trade partners of the United States are engag-
17 ing in unreasonable, unjustifiable, and discriminatory
18 acts, policies, and practices, including the use of import
19 quotas, that tend effectively to prohibit or unreasonably
20 burden United States exports of—

21 (A) oranges, grapefruit, and other citrus
22 fruits; and

23 (B) fresh, chilled, and frozen beef and other
24 beef products; and

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1 (2) such acts, policies, and practices deny access
2 to such markets for United States producers of such
3 exports, reduce agricultural exports and farm income,
4 and contribute to the United States trade deficit and
5 the Federal budget deficit.

6 (b) SENSE OF CONGRESS.—It is the sense of Congress
7 that if a country is found to engage, in violation of the Gener-
8 al Agreement on Tariffs and Trade, in any such acts, poli-
9 cies, and practices against any such United States exports,
10 the President should take steps, including the imposition of
11 import fees and duties, that will result in the exclusion of the
12 importation of similar or other products from such country
13 found to be in violation of the General Agreement on Tariffs
14 and Trade into the United States until such acts, policies,
15 and practices are eliminated.

16 Subtitle C—Miscellaneous

17 **SEC. 651. ALLOCATION OF CERTAIN MILK.**

18 (a) IN GENERAL.—Notwithstanding any other provision
19 of law, milk produced by dairies—

20 (1) owned or controlled by foreign persons; and

21 (2) financed by or with the use of industrial reve-
22 nue bonds;

23 shall be treated as other-source milk, and shall be allocated
24 as milk received from producer-handlers for the purposes of
25 classifying producer milk, under the milk marketing program

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1 under provisions of the Agricultural Adjustment Act reenact-
2 ed with amendments by the Agricultural Marketing Agree-
3 ment Act of 1937. For the purposes of this section, the term
4 "foreign person" has the meaning given such term under sec-
5 tion 9(3) of the Agricultural Foreign Investment Disclosure
6 Act of 1978 (7 U.S.C. 3508(3)).

7 (b) REGULATIONS.—The Secretary of Agriculture shall
8 prescribe regulations to carry out this section.

9 (c) LIMITATION.—This section shall not apply with re-
10 spect to any dairy that began operation before May 6, 1986.

11 SEC. 652. PROTECTION OF QUALITY OF EXPORT GRAIN.

12 Section 6 of the United States Grain Standards Act (7
13 U.S.C. 78) is amended by adding at the end thereof the
14 following:

15 "(c)(1) To protect the quality of grain exported from the
16 United States, no dockage or foreign material (including dust
17 or particles of whatever origin) once removed from grain
18 shall be recombined with any grain when there is a possibility
19 that the recombined product may be exported from the
20 United States; and no dockage or foreign material of any
21 origin may be added to any grain that may be exported when
22 the result will be to reduce the grade or quality of the grain
23 or reduce its ability to resist spoilage.

24 "(2) Paragraph (1) does not prohibit—

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1 "(A) the treatment of grain to suppress, destroy,
2 or prevent insects and fungi injurious to stored grains;
3 "(B) the export of dockage or foreign material re-
4 moved from grain when such dockage or foreign mate-
5 rial is pelletized or a part of a processed ration for live-
6 stock, poultry, or fish and is exported separately and
7 uncombined with any whole grain; or
8 "(C) the addition to grain of confetti, or any other
9 material that serves the same purpose, in an amount
10 necessary to facilitate identification of ownership or
11 origin of a particular lot of grain.
12 "(3) Adjustment of the moisture content of grain that
13 may be exported is permitted by the blending of such grain
14 with a similar grain of different moisture content if the differ-
15 ence between the moisture contents of the grains being
16 blended does not exceed 4 per centum, but the addition of
17 water to grain that may be exported is prohibited except by
18 aeration of such grain with natural air.".

19 **SEC. 653. FINDINGS AND SENSE OF CONGRESS WITH RESPECT**
20 **TO THE EUROPEAN COMMUNITY.**

21 (a) FINDINGS.—Congress finds that—
22 (1) as part of the terms under which Spain and
23 Portugal joined the European Community in January
24 of 1986, the European Community has—

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1 (A) imposed quotas on imports of oilseed
2 products into Portugal, in violation of the General
3 Agreement on Tariffs and Trade (hereinafter in
4 this section referred to as "GATT");
5 (B) imposed a quota requiring that Portugal
6 purchase at least 15.5 percent of its grain from
7 other European Community countries, in violation
8 of the GATT; and
9 (C) replaced GATT-bound 20 percent tariffs
10 on corn and grain sorghum imports entering Spain
11 with the European Community's variable levy
12 system, which is currently equivalent to a tariff of
13 more than 100 percent, before negotiating com-
14 pensation as agreed to previously and directed by
15 international trade rules;
16 (2) the restrictions imposed by the European
17 Community will impair access for as much as
18 $1,000,000,000 worth of United States agricultural
19 products to markets in Portugal and Spain, and ad-
20 versely affect the economic livelihood of United States
21 farmers and related industries;
22 (3) despite Cabinet-level approaches to the Euro-
23 pean Community in recent months, the European
24 Community has been unwilling to rescind the illegal

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1 quotas or to compensate the United States for the
2 damage caused by the higher tariffs;
3 (4) prior enlargements of the European Commu-
4 nity in 1973 and 1981 have adversely affected United
5 States agricultural exports to the Community;
6 (5) the President on March 31, 1986, announced
7 the intention to use existing authority to respond to the
8 restrictions of the European Community by imposing
9 quotas and tariff increases or by withdrawing tariff
10 bindings to produce equivalent restrictive effects or
11 comparable loss of trade on European Community im-
12 ports into the United States; and
13 (6) the President's proposed actions to defend le-
14 gitimate United States trade interests are consistent
15 with a free but fair trade policy.
16 (b) SENSE OF CONGRESS.—It is the sense of Congress
17 that—
18 (1) the administration should continue firmly to
19 oppose actions by the European Community to—
20 (A) impose quotas on oilseeds and oilseed
21 product imports into Portugal;
22 (B) impose a grain purchase requirement
23 quota on Portugal; and

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1 (C) place variable levies on corn and grain
2 sorghum entering Spain before negotiating com-
3 pensation; and
4 (2) unless the European Community rescinds the
5 trade-restrictive measures referred to in paragraph (1)
6 or the United States receives prompt and complete
7 compensation for any loss of trade resulting from such
8 enlargement of the European Community, the adminis-
9 tration should take actions, such as the President has
10 announced, to impose trade restrictions on a sufficient
11 value of exports of the European Community to the
12 United States to reestablish the balance of concessions
13 under the GATT and other international trade
14 agreements.
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